



## **U.S. Department of State FY 2000 Country Commercial Guide: Honduras**

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## **I. EXECUTIVE SUMMARY**

This Country Commercial Guide (CCG) presents a comprehensive look at Honduras' commercial environment, using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government agencies.

Since the beginning of this decade, Honduras has made great strides in opening its markets to foreign trade and foreign investment. Import duties, which had ranged as high as 140%, have been brought down to between 1 and 20 percent for almost all products. Surcharges, customs administrative charges and consular fees have been abolished. Honduras has also done away with most non-tariff barriers to trade, including import licensing requirements. Duties on imports of raw materials have been reduced to 1 percent, and the administrative customs charge was eliminated for raw materials in 1998. This progressive trade liberalization has been largely responsible for propelling U.S. exports to Honduras from \$627 million in 1991 to \$2.4 billion in 1998, according to U.S. Department of Commerce figures.

The response to the Honduran government's trade liberalization policy has been a rapid and sustained rise in the importation of consumer goods. The importation of capital goods, led by electric generating machinery and telecommunications, has experienced high growth rates in recent years. In 1998, for instance, the importation of plastics, electrical equipment, transportation material, textiles and textiles' manufactures and food products rose by more than 30 percent over 1997 levels.

The proximity of Honduras to the U.S. market and the excellent port facilities on Honduras's Caribbean coast make communications easy. Two U.S. airlines and a regional carrier provide direct flights between the major cities in Honduras and Miami, Houston and New Orleans. These factors, coupled with Honduras's positive business attitude toward the U.S., a history of social stability and recent developments in regional economic integration, make Honduras an excellent location to penetrate the Central American market.

The U.S. accounts for about 50% of Honduras's foreign trade and for more than 70% of foreign direct investment in the country. U.S. dominance of the media in such markets as cable, network television and radio enhances Hondurans' preference for U.S. goods and services. The U.S. and Honduras signed a bilateral investment treaty in 1995, which is expected to be ratified by the U.S. Senate in 1999. Both nations initialed a bilateral Intellectual Property Rights (IPR) agreement in April 1999, which

will raise the level of IPR protection and enhance investment security.

Law in Honduras is based on code rather than precedence, as in the U.S. The degree of unpredictability of outcomes of legal proceedings has been a source of some frustration for international traders and investors. The Honduran Congress is expected to pass a new criminal procedures code, which will provide for more transparency and an oral/adversarial system. Conflicting land titles have been the source of many problems for U.S. investors in Honduras. Prospective real estate purchasers should exercise caution in any purchase of property in Honduras, especially in coastal areas or on the Bay Islands. Honduras is working to improve these shortcomings.

Major business opportunities in Honduras are found in tourism, computers and peripherals, medical equipment, automotive parts and service equipment and building supplies.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank's CD-ROM or via the Internet. Please contact Stat-USA at 1-800-Stat-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>; <http://www.state.gov/>; and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRADE or by fax at (202) 482-4473.

## **II. ECONOMIC TRENDS & OUTLOOK**

### **A. Major Trends & Outlook**

Honduras recorded robust economic performance during the first three quarters of 1998, driven by strong external demand and new investment in manufacturing, particularly the maquiladora sector, and in agriculture. Another boost to economic activity was the Honduran private sector's increased confidence in the government of President Carlos Flores to stabilize the economy and encourage new investment. The vigorous economic activity observed during the first nine months of 1998 led to a slight reduction in the rate of open unemployment, to 3.9% (although underemployment, at 25.7%, was widespread). The inflation rate from September 1997 to September 1998 was 14% (versus 17% during the September 1996/1997 period). The Government of Honduras' (GOH) fiscal position improved, the lempira remained strong and import prices, especially petroleum, eased. Average real wages, which had increased 10% in 1997, increased an additional 3% during the first nine months of 1998.

On the fiscal side, the central government deficit was reduced to slightly under 2% of gross domestic product (GDP) during the first nine months of 1998, 1% lower than that recorded in the corresponding period a year earlier. The improvement in 1998 was largely due to an increase in the national sales tax in June 1998 (from 7% to 12%) and to the GOH's reduced level of capital expenditures. The Flores government's decision to raise the sales tax and to place a new management team in the tax collection office was largely responsible for the 35% increase in government receipts in the September 1997/1998 period.

The Honduran money supply increased 36% in the 12 months ending September 30, 1998, 10% higher than a year earlier. This resulted in a 12% expansion of credit to the private sector. Lower inflation and more liquidity in the financial system led to a reduction in interest paid on Central Bank short term debt instruments from 21% at the end of 1997 to 18% nine months later. Commercial lending rates dropped from 32.1% at the end of December 1997 to 30.1% at the end of September 1998.

Honduran exports of goods and services continued to record strong growth during the first three quarters of 1998 as a result of relatively high world coffee prices, the dynamic maquiladora sector and rising tourism receipts. Imports also rose substantially during 1998, led by capital goods and petroleum. Honduras' external account deficit remained at about 2.5% of GDP in 1998. The Honduran lempira depreciated 11% in nominal terms during the 12-month period ending in September 1998, three percent less than the 14% recorded in the September 1996/September 1997 period. The Central Bank increased the band from 5% above and below the reference exchange rate to 7% in 1998 to improve exchange flexibility.

The Flores government established Honduras' first Ministry of Tourism soon after taking office in January 1998. Although small in size, the Ministry has already done much to enhance the image of Honduras as an attractive tourist destination. Tourism, along with agro-industry and forestry are the most internationally competitive sectors of the Honduran economy.

During the autumn of 1998 Honduras had already made substantial progress in negotiations with the IMF for the signing of a new three-year Enhanced Structural adjustment Facility (ESAF) program. The Honduran Finance Ministry and the Central Bank had been in compliance with the terms of an IMF Staff Monitored Program since the spring of 1997, and the country's major economic indicators were positive. The GOH was looking forward to signing the ESAF not later than December 1998.

Hurricane Mitch struck Honduras during the last days of October 1998. In addition to the catastrophic human losses caused by the hurricane (at least five thousand lost their lives while nearly

40% of the population of 6 million was directly affected by the storm), Mitch dashed Honduras' hopes for a sustained economic expansion and led to around new calculus with the IMF. The hurricane is estimated to have caused \$3 billion in damages to the Honduran economy, equal to about 50% of annual GDP. Preliminary statistics from the Honduran Central Bank indicate that GDP growth for 1998 was 3% while inflation increased by 15.7% (the corresponding figures for 1997 were 4.5% and 12.8%, respectively). The GOH's emergency spending the last two months of 1998 coupled with plummeting tax collections as the economy stalled, caused the fiscal deficit to rise to 3.2% for the year (versus 2.8% in 1997). The external current account deficit increased to about 3% of GDP because of the decline in exports in the last two months of 1998 and the rise in imports associated with national reconstruction. The nation's net international reserves closed 1998 at \$660 million, equivalent to 3.4 months' imports, but down \$70 million from the \$730 million recorded on July 31, 1998.

Honduras' infrastructure was severely damaged by Mitch. More than one hundred bridges were either destroyed or seriously weakened while large segments of the Honduran road network were damaged. The capital city was cut off from Honduran ports for nearly a week following the storm, causing fuel and food rationing. Damaged infrastructure posed an immediate threat to Honduras' coffee harvest, its largest export crop, because it hampered harvesting and transportation of the crop to processing plants. The second-largest export crop, bananas, suffered losses of about 80% as a result of the storm. Honduras' melon growers and shrimp farmers were hard hit as were the country's African palm and sugar plantations. Damage to the bean and corn crops to tens of thousands of small Honduran farmers was also considerable.

As Honduras was beginning to recover from the worst of the hurricane damage, it suffered another serious economic blow. On February 11, 1999 a fire seriously damaged the 300 MW El Cajon hydroelectric plant, which represents more than 40% of the installed generating capacity in the country. Damage to El Cajon caused blackouts and power rationing throughout the country as Honduran authorities scrambled to arrange electricity imports via the Central American grid from Nicaragua, Costa Rica and Panama. One of the four 75 MW generators was returned to service in early March, and two others came on line in June 1999. The President of the Honduran Central Bank informed the press that the damage to El Cajon would cause a loss of 1% of GDP in 1999, this in addition to the 2% loss caused by Mitch.

The Flores government has acquitted itself well in responding to the challenges implicit in the post-Mitch economy. While the top priority has been on providing food, shelter and health care to those affected by the hurricane, the Flores administration has also maintained macroeconomic stability. Net international

reserves reached \$700 million in March 1999 while inflation increased 5.3% the first six months of 1999, below the 9.7% recorded during the corresponding period in 1998. The increase in net international reserves is attributed in part to the sharp increase in family remittances.

1999 will be a difficult year for the Honduran economy. The GDP is expected to contract 3%, mainly because of damage to the agricultural sector and electricity shortages. The public sector deficit is expected to balloon to about 8.5% of GDP, but concessional loans and debt relief should finance most of that gap. On the monetary side, the authorities plan to cut the growth of the money supply to 14% in 1999. They also hope to bring down inflation to the low teens for the December 1998/December 1999 period. GOH economic planners expect to maintain the country's net international reserves at above \$700 million, or between 3.5 and 4 months of imports, during 1999.

## **B. Principal Growth Sectors**

Data from the Central Bank of Honduras show that the nation's gross domestic product increased by 3% in 1998, versus the 4.5% recorded in 1997. Per capita income, measured in U.S. dollars, is estimated at \$775 in 1998. The per capita income figure for 1998 would have exceeded \$800 if it were not for the economic impact of Hurricane Mitch. Strong growth in the construction sector (up 16.7%), the financial services sector (up 9.9%) and the public utilities sector (up 8.9%) sparked economic activity in 1998. The agriculture and livestock sector, the most important area of economic activity in Honduras, accounting for about 27 percent of GDP and employing approximately more than 40% of the work force, contracted 7% in 1998. Exports of Honduras's major export crop, coffee, reached \$430 million in 1998, 32% higher than in 1997. The second most important export crop, bananas, fell to \$176 million, 17% below the 1997 figure.

The Honduran maquiladora sector continued its robust growth in 1998. High labor productivity and competitive labor costs in the 1990s made Honduras a magnet for maquiladora activities, especially in the area of textiles assembly. Honduras became the fifth largest exporter of maquiladora items to the U.S. market in 1997, having moved up from 17th place in 1994. By May 1999, nearly 110,000 Honduran workers were employed by maquiladoras. Maquiladoras provided Honduras with more than \$340 million in net exports and \$130 million in salaries and wages in 1998.

The Honduran government signed a three-year ESAF program with the IMF in March 1999, which will allow substantial bilateral debt forgiveness from the Paris Club and paved the way for substantial donations at the Consultative Group meeting in Stockholm in May 1999.



### **C. Government Role in the Economy**

The Honduran government has been characterized for many years by its unwieldy size, high degree of centralization and control of a large number of public enterprises. Since 1995, the GOH has received more than \$200 million from the Inter American Development Bank (IDB) and the World Bank to reduce the role of the State, stimulate the participation of the private sector, modernize public administration, eliminate duplication and reorganize the executive branch. Among the steps taken in this direction have been the modification of the General Law of Public Administration and redefinitions of former ministries, which has led to the creation of the Ministries of Agriculture and Livestock; Natural Resources and the Environment; and International Technical Cooperation. More recently, the Honduran Congress passed the National Police Organic Law and created the Ministry of Security.

The pace of Honduran structural reform, which had varied considerably in the 1990s, accelerated in 1998. At the urging of the World Bank and the International Monetary Fund (IMF), Honduras enacted legislation which established a single regulatory agency for the electricity sector in April 1998. A few months later, the GOH created an action plan for privatizing electricity distribution. In the fall of 1998, the Honduran Congress approved the process which will lead to the privatization of 51% of Hondutel, the national telephone company. By December the long-awaited laws on concessions, mining, tourism law, agroinvestment law and renewable energy incentives were passed by Congress. The concessions law will permit the private sector to construct and/or manage infrastructure projects, including airports and roads. The other laws encourage investment in important economic sectors.

The modernization of the state at the national level was built upon progress already achieved in decentralizing the public service sector at the municipal level, which was accomplished despite the small size of the majority of municipalities and their limited financial, technical and human resources. For instance, during the 1990-1993 period 79 percent of small social infrastructure projects realized by the Honduran Social Investment Fund were prepared and implemented by the municipalities themselves.

More work remains to be done at both the national and municipal levels, especially in reducing the size of the government work force. While the number of nominal government jobs has been reduced by 16 percent since 1994, the number of contract employees hired by the government has grown by more than 30%.

Many Honduran government officials are coming to recognize that the government's role in national economic development must be that of facilitating, not complicating, business and investment.

Moves to privatize large government holdings in the Honduran infrastructure are being undertaken in part in realization that the government lacks the financial and managerial resources needed to make these enterprises run efficiently. Government, rather, belongs in areas like public health, education and security.

**Budget priorities:** The stated goal of the GOH budget in 1999 is to achieve the objectives and policies contained in the national reconstruction master plan for the period 1999-2001. These include economic, social and productive infrastructure construction, sustainable economic development, human development and poverty reduction. In addition, the budget is aimed at promoting commercial integration and competitiveness, democracy, national security, the protection of natural resources and the environment and external debt relief. Among the largest sectors receiving government budget funds in 1999 are education, which will receive 19% of the \$1.4 billion central government budget, public health, which will get 13%, and public works, which will receive 9%. Twenty-one percent of the budget is earmarked for debt service.

**Privatization:** Some of the more than \$200 million provided to the GOH for modernization of the state was also destined for the privatization of government-owned public services. Work began in 1994 to reform HONDUTEL, the state telecommunications entity, whose operations have suffered from technical, financial and managerial deficiencies. The initial steps included the opening of frequency bands to the private sector, the creation of a National Telecommunications Commission (CONATEL) to carry out regulatory functions, and the decision to convert the operational part of HONDUTEL into an entity called COHONDETEL. The privatization of HONDUTEL is expected to be completed in late 1999. The present law calls for the sale of 51% of HONDUTEL to an internal strategic partner.

The Honduran civil aviation sector has operated for years under an obsolete legal framework. A transitory solution is in place at the moment for the management of the country's four international airports (located in Tegucigalpa, San Pedro Sula, La Ceiba and Roatan). The long term solution calls for the passage of new civil aviation legislation by the Honduran congress, which will include the creation of an autonomous regulatory entity and new investments from the private sector. The administration and operation of all four airports under a concession is to be put up for bids to international firms in the second half of 1999.

The Honduran National Electrical Energy Company (ENEE) has also suffered from technical and financial shortcomings, which have diminished its operating potential. The enactment of a framework law on the electrical sub-sector created the National Electrical Energy Commission, allowed the generation of energy by the

private sector and permitted the adjustment of electricity tariffs in accordance with costs. Nevertheless, energy distribution continues to be inefficient, with losses of more than 20% in the distribution system. Under terms of the 1998 strategic privatization plan, ENEE is to complete the sale of its distribution system not later than December 2000. Bid documents for this undertaking will be issued by December 1999.

In the transportation sector, the GOH plans to stimulate the participation of the private sector in the financing of new highways. The government also plans to improve maritime transportation by permitting the private sector to operate under a concession basis certain sea port services. The passage of the Concessions Law by the Honduran Congress in late 1998 should accelerate private sector participation in highways and similar projects.

#### **D. Balance of Payments Situation**

The GOH external sector recorded improved performance in 1998, compared to 1997. Preliminary figures from the Honduran Central Bank show the current account deficit in 1998 was brought down to \$156.4 million, 14% less than recorded the year before. The improvement was due to a 10% increase in exports of goods and services, an increase in the value added by the maquiladora sector and a 37% increase in transfers.

Honduran imports grew by 12 percent, according to Central Bank figures. Export revenues from coffee more than compensated for the 16% reduction in banana export revenue. Honduras's net international reserves reached \$660 million at the end of 1998, equivalent to 3.4 months of imports.

Hurricane reconstruction work and reduced exports will cause Honduras' external current account deficit to grow in 1999. But about half of this deficit should be financed by inflows of foreign direct investment (mainly in rebuilding banana plantations and related infrastructure) and loan disbursements. Further help in reducing this deficit has come by the Paris Club's decision to defer all debt service due in the 1999-2001 period and to extend Naples-terms treatment to Honduras' bilateral debt. Lastly, bilateral disbursements in to the Central American Emergency Trust Fund -- the World Bank administered fund to assist Honduras and Nicaragua service multilateral debt in the wake of Hurricane Mitch -- and new grants and concessional loan disbursements are expected to cover the remainder of the country's financing requirements.

Honduras' current account deficit is forecast to fall to 6% of GDP in 2000 as agricultural exports recover and the maquiladora sector continues to demonstrate strong growth. Also, Honduras will see a slowdown in import growth following the high level in 1999 associated with the reconstruction effort.

## **E. Infrastructure**

Honduras suffered extensive infrastructure damage from the devastation wrought by Hurricane Mitch in October 1998. With the implementation of its National Reconstruction and Transformation Master Plan (PMRTN), the Government of Honduras expects the country to recover from most of its losses by the year 2001, and improve conditions beyond pre-Mitch levels by 2003.

Infrastructure investment requirements under the PMRTN's project portfolio are an estimated US\$ 1 billion and are divided as follows (US\$ millions): \$463.3 road network; \$92.2 ports; \$13.2 airports; \$358.2 water and sewage systems; \$74.1 energy; and \$9.1 for communications. Total financing requirements will be covered through donations, loans, and national counterpart funds. At the May 25-28, 1999 Stockholm Consultative Group Meeting, Honduras discussed with the international community its "Master Plan" for post-Hurricane Mitch reconstruction and was able to obtain financing support commitments amounting to approximately US\$ 3 billion.

A new Concessions Law, which entered into effect in January 1999, is aimed at facilitating private investment in sectors that were formerly restricted to the government. This law will benefit infrastructure developments, as it allows private companies to build and run projects such as airports, ports, and highways.

**Ports:** Honduras has ports on both the Atlantic and Pacific Oceans that are served by a number of shipping companies that link the country with Asia and Europe, as well as the rest of the Western Hemisphere. The northern port of Puerto Cortes, Honduras's principal seaport, operates 24 hours a day and is also used for the shipment of goods to and from El Salvador and Nicaragua. Puerto Cortes is among the three main ports in Central America, which handle over 80 percent of the region's total sea cargo. Puerto Cortes caters to a broad range of cargo shippers' needs, including no waiting time and modern Roll-on/Roll-off (Ro/Ro) and containerized facilities. Shipping time to major southern U.S. ports is approximately 48 hours. Honduras has two other ports with piers capable of handling ocean going freight as: Puerto Castilla on the Pacific. The Caribbean ports of Tela, La Ceiba and Puerto Lempira can only handle small coastal craft. Most companies in Honduras utilize Puerto Cortes.

The cost to repair the damage to the ports (infrastructure, equipment, and installations) as a result of Hurricane Mitch is estimated at US\$2.98 million. Although Honduran ports are operating under normal conditions with no restrictions to deep sea cargo, they need to be dredged.

Honduran ports also need to adjust to fundamental changes in sea trade markets and in the organization of maritime transport

technology in order to sustain their competitiveness. According to the National Port Authority, additional investments of approximately USD 56-100 million are required for the improvement of Honduran port facilities by the year 2010. Private sector participation in the Port Reform Agenda, including the likely future privatization of the country's ports, is considered crucial in maximizing operational efficiency of the country's port system.

**Roads and Highways:** Among the most devastating effects of Hurricane Mitch in Honduras was the damage to the road system, which was considered by many as the best in Central America. Honduras has a 14,602 kilometer official road network connecting the ports and airports with the secondary cities and rural areas of the country. The country has good surface connections with the rest of Central America, and the domestic road network has generally satisfied local and foreign companies distribution and transportation needs. Of Honduras' total roads, 2,673 km are paved primary roads, of which 52% are in need of repair after Hurricane Mitch. Twenty percent (2,386 km) of unpaved secondary roads and 1,750 km of tertiary farm-to-market roads also need repair, and 170 bridges were destroyed or damaged.

Honduras' road network is managed by the Ministry of Public Works, Transportation, and Housing (SOPTRAVI), which contracts its construction and maintenance works out to the private sector. The country's top reconstruction priority is getting its road network rebuilt, the total cost of which is estimated at US\$463.3 million. Among the financing sources for the rehabilitation of public works are the U.S. Agency for International Development the U.S. Department of Agriculture, Inter-American Development Bank, the World Bank, and the Central American Bank for Economic Integration.

**Airports:** Four international airports serve the nation's capital Tegucigalpa, the commercial center of San Pedro Sula, the tourist island of Roatan and the coastal city of La Ceiba. Airfreight services are reliable and efficient. Three gateway cities (Houston, Miami, and New Orleans) are only 2 1/2 hours' flying time from Honduras. Several international freight and passenger airlines provide daily direct flights and connections between Honduras and numerous world destinations. Plans to expand the runway and terminal facility at Tegucigalpa are underway.

The city of San Pedro Sula recently inaugurated a modern international airport, which may become a hub of regional air travel. This 24-hour-a-day transportation facility is equipped with a modern control tower, computerized customs, and a comfortable passenger terminal. The San Pedro Sula International Airport handles approximately 14,000 metric tons of cargo and 2 million passengers per year. The airport was flooded by Hurricane Mitch covered with mud, and suffered damage to run way lights and

navigational aids. The airport has since been cleaned up and almost all the damage has been repaired.

The Government of Honduras plans to concession the nation's four international airports to a single international operator by year-end 1999.

**Electrical Generating Systems:** Honduras had one of the highest energy demand growth rates in Latin America, averaging 13-15% over the last three years. The reasons for this high demand rate include pent-up demand after the 1994 energy crisis, construction of new hotels and other commercial structures, and industrial construction, especially in the maquila sector. The National Electrical Energy Company (ENEE) distributes 97% of the electricity consumed, the rest being consumed by industries that generate their own electricity. 85% of the country's urban population has access to electricity, however, only 20% of the rural population has access.

Honduras's current installed electric power generation capacity is 683.80 MW, out of which 432.7 MW is hydroelectric; and 251.1 MW is thermal. ENEE forecasts additional needs of 72 MW of generating capacity for 2000, 84 MW for 2001, and 72 MW for 2002. The electrical power system in Honduras is composed of five hydroelectric plants and six thermal plants, three of which are operated by private power generators. Although ENEE's transmission and distribution system suffered damage from Hurricane Mitch, the disaster had the beneficial effect of filling the El Cajon reservoir (the country's main hydroelectric facility), thus reducing the threat of future dry season blackouts. The plant has an installed capacity of 300 MW, which represents 40 percent of the country's total generating capacity. On February 13, 1999, however, a disaster worse than Mitch struck ENEE when a fire broke out in El Cajon's powerhouse, taking out all 300 MW. Fortunately for Honduras, the effects of the fire were mitigated by the availability of idle thermal assets and excess capacity in Costa Rica and Panama. Energy rationing as a result of the fire were experienced until mid-June 1999, when 100MW of new thermal plants came on line and most of El Cajon's turbines were reactivated.

Hurricane Mitch provided an opportunity for the Government of Honduras to review energy policy with the preparation of the Master Plan for Reconstruction. The Master Plan proposes to create an environment conducive to private sector participation in generation and distribution and modernize the sector's institutional, regulatory and legal framework. Specific goals include: increase electrification to 70% by 2001; reduce electricity losses from 24% in 1998 to 16% by 2001; and achieve an electricity generation balance of 62% hydro and 38% thermal by 2005, with 98% of thermal generation by the private sector. Also crucial to the sector's modernization is privatization of ENEE's distribution system, scheduled by the end of 2000, a key

condition of the March 1999 International Monetary Fund's Letter of Intent.

**Telecommunications:** Although the quality of Honduras' telecommunications network has improved significantly in recent years, access to telecommunications services remains well below the Latin American average. The installed telephone network capacity is about 359,181 lines, with 245,708 lines in service. Line penetration for the entire country is 63%, with 4.12 telephone lines per one hundred inhabitants.

The Government of Honduras plans to private 51% of the national phone company, Hondutel, by the end of 1999. An international operator will be offered 51% of Hondutel's stock with 45 percent retained by the state, 2 percent reserved for employees, and 2 percent offered to public social security pension funds, professional organizations, and private users.

**Construction:** The Honduran Government is currently focused on promoting private sector investment as a key strategy for improving the country's infrastructure. Under the Presidential Investment Program, the Honduran Government plans to launch several infrastructure projects over the next three to ten years, primarily through private sector financing. Among the projects under the Presidential Investment Program are the construction of an interoceanic road, or "dry canal", connecting Puerto Cortes on the Caribbean with the Ports of La Union in El Salvador and Corinto in Nicaragua on the Pacific; the construction and design of tourism projects; and the expansion and construction of international airport facilities.

Private sector investments in the construction sector are expected to increase by 50 percent by the end of 1999. Fueling this growth, in part, are reconstruction-related works and new investments, such as malls, hotels, and housing projects. After the devastation of Hurricane Mitch, total construction permit requests have doubled over the 1998 figure. In Tegucigalpa, for example, construction permit authorizations average 250 every 30 days, compared to 125 monthly permits reported pre-Mitch. Both residential and commercial construction have experienced significant growth.

In terms of social infrastructure, Honduras' existing housing deficit was greatly exacerbated by the effects of Hurricane Mitch. According to the World Bank, 82,720 families had their houses destroyed or damaged. The total cost to house the people left homeless by Mitch is estimated at US\$272.2 million: \$166.1 million to replace the 33,220 houses destroyed, and \$106.1 million to repair the 49,500 houses damaged.

**Water and Sewage Systems:** Water and sewage infrastructure was the most severely damaged of all utilities by Hurricane Mitch. Water catchment works, supply and water lines, and storage

facilities require repairs throughout the country. The National Water and Sewage Service (SANAA) operates the water system in Tegucigalpa and 45 other towns, as well as the capital's waste water system. Some municipalities, including San Pedro Sula, operate their own water and sewer systems. About 4,000 rural communities operate their own water systems through village water boards.

**Y2K Preparedness:** Honduras' efforts to address the Year 2000 problem (Y2K) have improved throughout the first semester of 1999. While some areas continue to lag in their preparations, three important sectors - energy, telecommunications, and banking - are all well on their way to successfully managing the challenges posed by Y2K. The Government is also particularly concerned about Y2K preparedness in transportation and aviation, ports, customs, and hospitals. Some organizations, however, are not sophisticated enough to face a significant threat from Y2K. The two state-owned water treatment companies, for example, have virtually no vulnerable systems except for billing. Despite a lack of preparation in some sectors, such as health, mayor infrastructure failures are not anticipated in January 2000. In October 1998, the Government of Honduras established a temporary Commission to examine the Y2K phenomenon and recommend solutions for the entire government. The Honduran Council for Science and Technology (COHCIT) is government entity responsible for Y2K remediation in Honduras.

#### **F. Nature of Local & Third Country Competition**

The close proximity of Honduras to the United States and a recognition of the high quality of American products constitute advantages for U.S. exporters and manufacturers. Middle and upper class Hondurans also have access to U.S. cable TV stations, thus exposing them to U.S. marketing. In general, receptivity to U.S. products and services is very high. U.S. exporters encounter little competition from local domestic suppliers, but competition from third-country suppliers is medium to heavy.

The U.S. is Honduras chief trading partner, accounting for about 50 percent of the country's total exports and imports. Honduras other important trading partners include Mexico, Japan, Taiwan, Korea and other Central American countries (El Salvador, Guatemala, Costa Rica, and Nicaragua).

Third country competition varies by sector. Such competition is strongest in the automobile, computer, consumer food product, telecommunications equipment, and electrical appliance markets. U.S. firms still dominate areas such as electrical power systems, construction equipment, forestry and woodworking equipment, automotive parts and service equipment, agricultural machinery and equipment, building products, hotel and restaurant equipment, and computer peripherals and software. However, competition from Asian and European firms is growing.



### **III. POLITICAL ENVIRONMENT**

#### **A. Nature of Political Relationship with the United States**

Honduras and the U.S. have traditionally had close and friendly bilateral relations. Honduras sees the United States as its most important international partner, and the U.S. is Honduras' largest bilateral trading partner. Along with Panama, Honduras is one of only two countries in the region where there is a long-term U.S. military presence. That presence, at Honduras's Soto Cano airbase near Comayagua (northwest of the capital city of Tegucigalpa), now numbers about 500 personnel.

Honduras and the U.S. take similar positions on many foreign policy and regional issues. Honduras favors Central American integration, and the Summit of the Americas process which calls for the creation of a Free Trade Area of the Americas. Honduras is an active member of multilateral organizations such as the UN.

Honduras has some differences with the U.S., however. Honduras, like other Latin American nations, has objected to the Helms-Burton legislation and has characterized the U.S. trade embargo against Cuba as giving Castro "oxygen." Honduras has complained about U.S. deportations of Hondurans. In this connection, Honduras has noted that U.S. immigration legislation has appeared to favor other Central Americans (Nicaraguans, Salvadorans, and Guatemalans) over Hondurans by taking into consideration the nature of undocumented entry from those countries in past years of unrest.

The administration supports legislation that would remedy this discrepancy and has implemented a program to provide temporary permission for Hondurans who entered the U.S. before December 30, 1998, to work and reside in the U.S. in recognition of the special needs of Honduras following the Hurricane Mitch disaster in October 1998.

The major bilateral issue in 1998 involved; intellectual property rights and television broadcast "piracy" of satellite signals. The U.S. temporarily withdrew some trade benefits, which prompted vigorous Honduran enforcement of its laws against satellite piracy and resulted in the restoration of full benefits and an improved IPR environment.

#### **B. Major Political Issues affecting Business Climate.**

The most important issues in Honduras include President Carlos Roberto Flores' new economic plan unveiled in April 1998, which decreased the corporate tax from 40% to 30% for 1998 and to 25% in 1999. His economic program also increased the sales tax from 7% to 12% in June. The government of Honduras is also considering

lifting the limitation of foreign ownership of land for tourism investment within 40 KM of the coast lines and national boundaries. Such a change would require a constitutional amendment.

### **C. Synopsis of Political System**

A republic since 1821, Honduras has had a history of political instability and rule by the military. However, a democratic renaissance has been underway since 1980, when elections were held for a constituent assembly that subsequently produced Honduras's current constitution. Free and fair elections for President, legislators, and municipal governments were held in 1981, 1985, 1989, 1993, and 1997.

Under its constitution, Honduras has three branches of government: a president, elected for a four year term and not eligible for re-election; a 128-member unicameral Congress elected for four year terms; and an independent judiciary headed by a nine member Supreme Court elected for a four-year term by Congress.

Throughout the 20th century, electoral politics have been dominated by two parties: the currently ruling Liberal Party (PL) and the main opposition National Party (PN). Both parties are centrist in orientation and favor democratic institution-building, free markets, and free trade. Since 1980, the Liberals have won all national elections except those of 1989, which were won by the PN. Ticket-splitting has resulted in local governments led by opposition candidates.

Since 1994, Honduras has also had a semi-autonomous Public Ministry headed by an Attorney General. The most recent Attorney General was elected by Congress in 1999 to a five-year term. The Public Ministry takes the lead in most public prosecutions, including those involving corruption and abuse of public authority.

Former President Carlos Roberto Reina was in office from 1994 until January 27, 1998. Outside of the economic realm, his major accomplishments included reducing corruption and elite impunity, notably through the institutionalization of the modern public prosecutor's office (Public Ministry). With the ending of the military draft, the separation of the police from the armed forces, and other measures, President Reina moved the civil-military balance into line with what is the norm in democratic countries.

Under current President Carlos Roberto Flores, who took office on January 27, 1998, civil-military evolution continues. The position of Commander-in-Chief of the Armed Forces was abolished in January 1999 under a constitutional amendment, and the President appointed a civilian Minister of Defense to manage

military affairs. The National Congress is expected to pass an organic law defining the relationships between the Ministry and the armed forces in 1999. A new Ministry of Security is managing the civilian police force and investigative police. Changes in public security along with justice sector reforms are helping buttress democracy and the rule of law in Honduras.

#### **IV. MARKETING U.S. PRODUCTS & SERVICES**

##### **A. Distribution & Sales Channels**

Distribution channels in Honduras are similar to those in the U.S. However, Honduras has fewer levels of distribution and a more limited number of specialty, chain, and department stores. Tegucigalpa and San Pedro Sula are the major distribution centers for imported products. The most common alternative channels include selling directly to customers, selling through intermediaries based in the United States, and selling through local distributors/representatives. U.S. firms will find that a single distributor or representative is sufficient to cover all of Honduras, given its relatively small size.

Representatives and distributors tend to carry rather broad lines on a non-exclusive basis. The number of full-service local distributors that stock large inventories of parts and equipment is limited. In order to reduce costs, and/or because local representatives are not sufficiently aggressive, many local buyers make direct contacts with U.S. suppliers at the factory or warehouse level. Store owners often buy goods in small lots from stores, export brokers, or wholesalers in the U.S., particularly in Miami, New Orleans and Houston, the principal gateway cities.

In certain sectors, such as automobiles, computers, and electric power generation equipment, U.S. companies are represented by local firms who also represent other foreign competitors. In other cases, U.S. companies are not represented locally, often losing opportunities in a market that is traditionally receptive to U.S. products. To market aggressively, U.S. exporters should establish local representation or a local sales office.

##### **B. Use of Agents & Distributors; Finding a Partner**

The principal-agent relationship in Honduras is governed by the civil and commercial codes; Supreme Decree 549, Official Register (La Gaceta) No. 22366, of December 7, 1977. This law is entitled "Law of Agents, Distributors and Representatives of National and Foreign Enterprises," and includes a provision for penalties for wrongful termination that discourages exclusive distribution agreements. Principals may not terminate the contract without just cause, unless they fairly compensate the agent for damages suffered.

Only Honduran nationals or Honduran legal entities registered with a local chamber of commerce and the Ministry of Industry & Trade may represent foreign firms.

Foreigners exporting to Honduras are not required by law to sell through an agent or distributor, except when selling to the government. Although a U.S. firm may export directly to Honduran companies, appointing a local agent or representative is strongly recommended to help with import procedures, sales promotion and after-sales service. Independent intermediaries are especially important for smaller companies, as their knowledge of the market and of the relevant business customs and practices adds to the strength of the U.S. manufacturer/exporter. U.S. companies are advised to evaluate local prospects in terms of the services and benefits provided, considering factors such as location, financial strength, quality of the sales force, warehousing facilities, reputation in the market, outlay on advertising, product compatibility and overall experience.

Exporters of pharmaceuticals, agrochemicals, and animal feeds and medicines are required to register their products before they can be sold in the Honduran marketplace. Pharmaceutical-related products must be registered with the Ministry of Public Health. Agrochemicals, animal feeds and medicines must be registered with the Ministry of Natural Resources.

Renewable periods for representation and non-exclusive relationships are strongly recommended when drawing up the agent/distributor agreement. After an U.S. exporter successfully locates prospective intermediaries, U.S. exporters should contact a Honduran lawyer for assistance with contract arrangements. The Embassy Economic/Commercial Section can provide a list of lawyers.

A written agreement often avoids later disputes and misunderstandings between the U.S. company and the local partner.

The U.S. Department of Commerce offers several services to U.S. firms interested in finding a partner or distributor for their product or service. The U.S. and Foreign Commercial Service (US&FCS) offers free and intensive one-on-one counseling plus low-cost, highly effective programs to help U.S. businesses establish or expand their foreign markets. The Commercial Section of the Embassy can locate interested, qualified representatives in potential markets in Honduras through its Agent/Distributor Service (ADS). An U.S. firm may check the background and reputation of a prospective partner through the International Company Profile Report (ICP) service. Through its Gold Key Service, the Commercial Section can schedule appointments, arrange translators and make reservations for U.S. business searching for partners or customers in Honduras. ADSs, ICPs, and other valuable services are available for a nominal fee

through the District Offices of the US&FCS, located in 68 U.S. cities.

### **C. Franchising**

In recent years the number of U.S. franchises operating in Honduras has grown rapidly. There are about 36 U.S. firms now operating in Honduras under franchising agreements. Most of these firms are fast-food and casual restaurants, such as T.G.I. Friday's, Pizza Hut, McDonald's, Wendy's, Subway, Popeye's, Church's Chicken, T.C.B.Y., Domino's Pizza, and Little Caesar's Pizza. Among other foreign businesses operating under franchise agreements are fast-printing, movies and entertainment, automotive aftermarket services, health & fitness, electronics, cosmetics & toiletries, convenience stores, dry-cleaners, and car rentals. Several major hotel chains are entering the market through construction of new facilities and acquisition of existing properties, such as Holiday Inn, Hyatt, Camino Real Inter-Continental, Best Western, Princess Hotels, and Crowne Plaza.

The Commercial Section is receiving an increasing number of requests about U.S. franchises. This is an area well worth exploring. Regional stability and the growth in investor confidence have contributed directly to the increase in the availability of U.S. franchises. Some of the positive market entry factors found in Honduras for franchisors include the availability of suppliers and personnel, the absence of trade barriers and a high receptivity to U.S. goods and services.

On May 29, 1992, the Honduran Congress passed a new investment law that is increasingly responsive to foreign investors' needs. Among other things, the investment law provides for national treatment for most foreign direct investment, guaranteeing the right to foreigners to freely establish, acquire, and dispose of interests in business enterprises within constitutional bounds.

### **D. Direct Marketing**

Direct marketing is a relatively new concept in Honduras, mainly because telecommunications and mail delivery infrastructures are not well developed for this type of marketing. Among the companies that currently utilize non-conventional distribution channels are T.V. Offer, Interwood Marketing (direct response TV), Avon (catalog and door-to-door sales), and J.C. Penney (catalog sales). Mail advertising of products and services is generally conducted through credit card companies, thus limiting the target market only to their respective credit card holders. Actual sales, however, do not occur through the mail.

Electronic Commerce has still not evolved in the Honduran market, as local internet connectivity is still at an early stage of development. The Electronic Commerce System Directorate

(DISELCO), a project of the Chamber of Commerce and Industry of Tegucigalpa (CCIT), the Chamber of Commerce & Industry of Cortés (CCIC), and the National Industry Association (ANDI), is the institution in charge of establishing the policies and norms pertaining to electronic commerce in Honduras. Except for web page promotional material, companies are yet not utilizing computer sales as an additional distribution channel in Honduras. At present, 75% of retail businesses are codified. Local company listings and mailing information can be obtained through chambers of commerce and industry associations in the country.

#### **E. Joint Ventures/Licensing**

The most promising opportunities are offered through joint venture initiatives. The 1992 investment law provides that, with few exceptions, there are no limits on the percentage of capital which can be owned by a foreigner. Thus, no special policy exists to regulate joint ventures, except that in certain industries majority control must be in the hands of Honduran nationals. These include companies that wish to take advantage of the Agrarian Reform Law; wish to obtain commercial fishing rights; are local transportation companies; are representatives, agents, and distributors for foreign companies; or seek to operate radio and T.V. stations. In general terms, the greatest joint venture advantages can be found in the industrial, mining, agricultural, tourism, and service sectors. The Commercial Section regularly reports to the Department of Commerce about Honduran firms interested in pursuing joint ventures in various industries.

The Foundation for Investment and Development of Exports (FIDE), a private institution dedicated to supporting industrial development, works with local businesses to strengthen their capacity to attract foreign joint venture partners. FIDE also locates appropriate manufacturing facilities for investors.

The Constitution of Honduras requires that all foreign investment complement, but not substitute for, national investment. In certain types of industries, majority Honduran ownership is required (see section VII, Investment Climate, Openness to Foreign Investment). There are also limits on the amount of land a single corporation may own. Foreigners are also barred from ownership of small businesses with a capitalization less than 150,000 lempiras (about USD 11,000). Licensing of foreigners to practice law, medicine, engineering, and other professions is tightly regulated by national professional organizations.

Except for foreign currency earned by companies operating in free-trade zones and industrial parks, Honduran law requires that all foreign exchange earnings on exports from Honduras be repatriated. However, the liberalization of Honduras foreign exchange regime now makes it easier for companies operating in the country to remit dividends and royalties, return capital

overseas and make payments on foreign debt. Foreign exchange authorizations by the Central Bank have been eliminated, and foreign debt authorizations now take less than 48 hours to obtain. Remittances of dividends and royalties must still be approved by the Central Bank, but the approval process now only takes around one month.

Taxation is an important issue to consider when investing in Honduras. Decree 131/98 of May 20, 1998 introduced changes to the income tax, business assets tax, and sales tax, inheritance and gift tax and car registration duties. Decree 131/98 also established a 4% tax on tourism-related services (including hotel accommodations, car rentals, and travel agents).

The corporate tax rate is 15 percent on the first LPS. 200,000.00 of taxable income and 25 percent on any income above that amount (as of July 1999 the exchange rate was \$1 = 14.34 LPS.). In 1998, the Honduran Congress enacted legislation lowering the maximum income tax rate (above 500,000.00 lempiras) from 42% to 30%. The rate dropped to 25% in tax year 1999. Except for firms operating in the industrial parks, located in the free tourism zones (ZOLT) or under the Temporary Import Regime, income tax is payable on income derived from operations within Honduras.

Non-resident aliens (and foreign companies not located in Export Processing Zones and Free Trade Zones) are only taxed on the gross income earned in Honduras. Income on profits obtained by foreign companies through operations of branches, subsidiaries, or legal representatives in Honduras is taxed at 15 percent. A 35 percent tax is assessed on corporate dividends and royalties on patents and trademarks. Wages, salaries, commissions, or any other type of compensation is taxed at 35 percent. A 15 percent tax is levied on income, profits, dividends or any other type of participation in profits or reserves of natural or legal persons. Capital gains are taxed as normal income, while capital losses can be used to offset capital gains only from the same period. Honduras also collects excise, property, and municipal taxes based on income obtained during the foregoing year.

There is a one percent tax on net assets in Honduras. This tax applies to companies whose capital is greater than LPs. 750,000. However, the income tax paid by these companies is credited against the net assets tax, and many companies do not have any additional liability. The tax will be reduced to 0.75% for tax year 1999, 0.50% for tax year 2000, and 0.25% for tax year 2001. The tax will be abolished as of tax year 2002. Exempt from the net asset tax are individuals or companies whose net assets have charitable purposes, businesses in their pre-operative stages and during the two years following the initiation of operations, businesses operating in free trade zones, industrial processing zones, tourism free-zones and maquilas. Payment of this tax is deductible from the income tax.

Apart from the Tax Information Exchange Agreement (TIEA), signed between the United States Government and the Government of Honduras in 1991, there are no tax treaties between the U.S. and Honduras.

#### **F. Steps to Establishing an Office**

The U.S. Embassy recommends that all U.S. businesses interested in establishing an office in Honduras first contact the nearest District Office of the U.S. Department of Commerce. These offices are located in 68 cities throughout the United States. We also

Strongly suggest that U.S. businesses contact the Economic/Commercial Section of the U.S. Embassy for counseling and advice. In addition to the general information provided by officers and specialists, the Economic/Commercial Section maintains a number of lists and directories of Honduran trade contacts and professionals, including lawyers.

The requirements for establishing a business in Honduras are relatively simple. Foreign businesses setting up operations in Honduras are subject to the Commercial Code, which recognizes several types of mercantile organizations: individual ownership, general partnership, simple limited partnership, limited liability company, corporation and joint stock company.

Honduran law covers a series of steps necessary for the proper legalization and incorporation of foreign firms, either in conjunction with local investors or as local subsidiaries. Foreign investors need to become Honduran residents in order to work in Honduras. Corporations established in accordance with foreign law (those whose legal domicile is outside of Honduras) may operate commercially, provided that they comply with all requirements dictated by the Commercial Code.

The first step in establishing a new business in Honduras is to be legally constituted before a Notary Public. Foreign companies must register with the Mercantile Registry (Commerce Public Registry), and provide evidence that they have been organized in accordance with the laws of their country of origin. The following information must be submitted: stockholder's name; nationality and domicile; form of organization and nature of business; term of operations (usually indefinite); authorized capital and minimum amount; description and/or valuation of each shareholder's; contribution in cash or other assets; company domicile; distribution of profits and losses among the shareholders and any other agreements made by the founders.

Newly-formed organizations must apply for the tax identification code (RTN) at the Ministry of Finance to use in all taxable transactions. New businesses in Honduras are also required to register with local and national Chambers of Commerce. Depending



on the type of business, the company may need to acquire an operation permit from the governmental entity dealing with the sector in which it is planning to invest, as well as a municipal patent or permit. Foreign subsidiaries must appoint a legal representative in Honduras, fully empowered to execute all legal or other acts required by Honduran law or which may take place in Honduran territory. Once the previous legal steps have been completed, a newly-formed organization must publish its registration in "La Gaceta," the government's official journal.

In addition, all companies must register with the following organizations in order to operate in Honduras:

- The Instituto Nacional de Formación Profesional (INFOP), the national institution in charge of worker instruction and qualification. While there is no registration fee, the firm contributes one percent of its total payroll to INFOP every month.

- The Instituto Hondureño de Seguridad Social (IHSS), which is the national social security hospital and out-patient care institution for workers and their dependents. As in the case of INFOP, there is no cost involved in registering with the system. However, once the firm begins operations, it contributes 3.5 percent of each employee's salary to the security system.

Locating and securing a suitable local partner is one of the most important steps in establishing a base of operations in Honduras. When doing so, U.S. business representatives should keep in mind that contracts and agreements are binding and fall under the jurisdiction of local laws.

To establish a local corporation, interested parties must secure the services of an attorney. Attorneys will guide investors through the procedures of incorporation, registration, and local taxation. In addition, there are several other notarial acts that must be carried out before establishing a business that require the services of an attorney.

Any project, industrial facility, public or private activity that could cause potential contamination or harm to the environment or historical sites must be preceded by a mandatory environmental impact evaluation (EIA). U.S. businesses should ask their attorney about the need for an EIA.

In recent years the time to establish an office in Honduras has been reduced considerably. With the exception of a few strategic areas that require special permission from the government, an office can be set up within a few days. The Honduran government has a One Stop Shop in the Ministry of Industry and Trade to deal with investors, especially with investment registry procedures. In practice, however, this office has suffered from personnel and resource constraints. In order to ensure compliance with all the

investment protection guarantees established by the 1992 Investment Law, the U.S. company should obtain an "Investment Certificate" from the Ministry of Industry & Trade. (For further information see Section VII of the Investment Climate Statement, Openness to Foreign Investment)

#### **G. Selling Factors/Techniques**

When selling in Honduras, U.S. exporters must take into account that for marketing purposes the country is divided into two regions; the North Coast, including San Pedro Sula, the country's commercial and industrial capital; and the Central region, where Tegucigalpa, the political capital, is located.

Large importers and distributors in Honduras usually have offices in both cities to take advantage of market opportunities. In other instances, large international firms have granted exclusive distributor rights, i.e., one exclusive distributor in San Pedro Sula and another in Tegucigalpa. These types of arrangements are acceptable under current Honduran laws.

Price is among the most important selling factors in Honduras. In particular, consumer product categories such as electronics, appliances, and automobiles are highly competitive. In such cases, the sales promotion and customer service efforts of U.S. companies become extremely helpful. U.S. products are often preferred based on quality, technology, reliability, and availability factors.

Because of high interest rates, importers/distributors, as well as Government of Honduras agencies, often have problems in securing the funds to purchase imports. U.S. exporters that offer attractive financing terms on sales to Honduran traders have the best chances of gaining market share. This is particularly true for large-scale projects. It is important to emphasize, however, that international firms must exercise due caution when granting credit to Honduran trading partners. Firms should take care to investigate the creditworthiness and reputation of potential partners before granting credit.

As in most Latin American countries, a good personal relationship with prospective customers is basic to penetrating the market. While it may take a little longer than is customary in the U.S. to consummate a business relationship, the investment in time can pay off in long-lasting and mutually profitable alliances.

#### **H. Advertising & Trade Promotion - Listing of Major Newspapers & Business Journals**

Honduran newspapers are considered one of the best ways for advertising products and services. Major local newspapers include:

## **Tegucigalpa Based Newspapers**

### **Diario EL HERALDO**

Spanish/Daily  
Manager: José Francisco Morales  
P.O.Box 1938  
Tegucigalpa, M.D.C., Honduras  
Tel: (504) 236-6000  
Fax: (504) 221-0778  
E-mail: [heraldo2@datum.hn](mailto:heraldo2@datum.hn)  
[Http://www.heraldo.hn](http://www.heraldo.hn)

### **Diario LA TRIBUNA**

Spanish/Daily  
P.O.Box 1501  
Comayaguela, M.D.C., Honduras  
Manager: Adan Elvir Flores  
Tel: (504) 233-1283  
Fax: (504) 234-3070  
E-mail: [tribuna@latribuna.hn](mailto:tribuna@latribuna.hn)  
[Http://www.latribuna.hn](http://www.latribuna.hn)

### **Semanario TIEMPOS DEL MUNDO**

Spanish/Weekly  
Manager: Kengi Kajita  
Tegucigalpa, M.D.C., Honduras  
Tel: (504) 220-1336, 220-1339  
Fax: (504) 220-7433  
E-mail: [tdm@mayanet.hn](mailto:tdm@mayanet.hn)  
[Http://www.tiemposdelmundo.hn](http://www.tiemposdelmundo.hn)

### **HONDURAS THIS WEEK**

English/Weekly  
Manager: Mario Gutiérrez  
P.O.Box 1312  
Tegucigalpa M.D.C. Honduras  
Tel: (504) 232-8818, 239-0285  
Fax: (504) 232-2300  
E-mail: [hontweek@hondutel.hn](mailto:hontweek@hondutel.hn)  
[Http://www.marrder.com/htw/](http://www.marrder.com/htw/)

## **San Pedro Sula Based Newspapers**

### **Diario LA PRENSA**

Spanish/Daily  
Director: Nelson Fernández  
P.O.Box 143  
San Pedro Sula, Honduras  
Tel: (504) 553-3101  
Fax: (504) 553-0778  
E-mail: [laprensa@netsys.hn](mailto:laprensa@netsys.hn)  
[laprensa@simon.intertel.hn](mailto:laprensa@simon.intertel.hn)

[Http://www.laprensahn.com](http://www.laprensahn.com)

**Diario EL TIEMPO**

Spanish/Daily  
Director: Manuel Gamero  
P.O.Box 450  
San Pedro Sula, Honduras  
Tel: (504) 553-3388  
Fax: (504) 553-4590  
E-mail: [fcordon@continental.hn](mailto:fcordon@continental.hn)  
[Http://www.tiempo.hn](http://www.tiempo.hn)

**Diario EL NUEVO DIA**

Spanish/Daily  
Director: Armando Cerrato  
P.O.Box 275  
San Pedro Sula, Honduras  
Tel: (504) 552-4013, 552-4298, 553-3740  
Fax: (504) 557-9457  
E-mail: [dia@netsys.hn](mailto:dia@netsys.hn)

One of the major trade promotion opportunities in Honduras is EXPO USA '99, the most important annual commercial exhibition for U.S. products and services. Further information for exhibiting in EXPO USA '99 can be obtained from the Commercial Section at the U.S. Embassy; Tel: (504) 238-5114 Ext. 2245, Fax: (504) 238-2888, or through the Internet at <http://www.usia.gov/abtusia/posts/H01/wwwhcel2.html>.

Located in the city of San Pedro Sula, Expocentro is the only trade exposition center in Honduras. Expocentro holds approximately 12 shows a year. For more information on trade fairs taking place at Expocentro fair grounds please contact:

Expocentro  
San Pedro Sula, Cortés, Honduras  
Tel: (504) 556-0345/49  
Fax: (504) 556-0344  
Contact: Ana Kattan, Manager

**I. Pricing Products**

U.S. exporters should keep in mind the relatively small size of the Honduran market and the high elasticity of demand for consumer products when devising marketing strategies. Price is one of the most important elements that influences the receptivity score of most Honduran imports. In many cases, Honduran business people buy directly from abroad if they feel that the cost of imports available in the local market is too high. U.S. exporters should carefully analyze both the cost approach and the market approach when making pricing decisions.

Price escalation represents another important consideration in terms of export retail pricing. Products imported into Honduras are usually priced based on the C.I.F. value, import duties, in-country transportation costs, and distributor margins.

The only items under price control are coffee and medicines. The prices of gasoline, diesel, and liquid propane gas are also reviewed by the government. The government also keeps an informal control over prices of certain staple products, such as milk and sugar. The local sales tax has recently been increased from seven to twelve percent for most goods. Products exempted from the twelve percent tax include staple foods, fuels, medicines, agrochemicals, household cleaning products, books, magazines and educational materials, agricultural machinery and tools, handicrafts, and capital goods such as trucks, tractors, cranes and computers, among others. A twelve percent sales tax is also assessed on new cars, and a 15 percent tax on alcohol, cigarettes and tobacco products. The elimination of a one percent tax applied on the FOB value of all articles exported has been approved by the government for the present year. Export taxes on seafood, sugar and live cattle were eliminated this year.

Services exempt from the sales tax also include utilities, educational services, professional fees (legal, accounting, engineering, etc.), clinical and medical services, land and air transportation services, banking, insurance and financial services. As of 1998, most tourism services are subject to a 4 percent tax.

The scarcity of local financing is viewed as a primary obstacle to doing business in Honduras. During times of foreign exchange shortage, a number of local companies have resorted to alternative methods for acquiring foreign exchange, including using the parallel exchange market.

#### **J. Sales Service/Customer Support**

The availability of adequate service and support frequently makes the difference in purchasing decisions, especially by the government. In general, it is important to secure sales through an established, reputable distributor that offers an adequate service infrastructure. U.S. companies should consider providing training, technical assistance, and after-sales support to their local counterparts, particularly for products that require periodic maintenance and service.

#### **K. Selling to the Government**

To participate in public tenders, foreign firms are required to act through a local agent. By law, local agency firms must be at

least 51 percent Honduran owned, unless the procurement is classified as a national emergency. Foreign companies may also appoint a local representative through a power of attorney. This representative, who will assist in obtaining the tender specifications, meeting deadlines for submission, and preparing bid offers in Spanish, can be a Honduran citizen, a Honduran company, or resident of Honduras.

Under the State Contracting Law, all public works contracts over LPS. 200,000.00 must be offered through public competitive bidding. Contract amounts between LPS. 80,000.00 and 200,000.00 are made through private bidding. For the acquisition of supplies, public bidding is required when the amount exceeds LPS. 30,000.00. All contracts over LPS. 2,250,000.00 with government ministries must be reviewed by the Attorney General's Office. Government purchases and project acquisitions are generally exempted from import duties.

The Government publishes tenders in Honduras's major newspapers. Bid evaluations look at cost, delivery time, reputation of the firm, technical support, performance in previous contracts and specific aspects related to each particular bid. Interested U.S. businesses can access many of these bids through the Trade Opportunities Program (TOP), the National Trade Data Bank (NTDB) and the Electronic Bulletin Board (EBB), which are product services of the U.S. Department of Commerce.

#### **L. Protecting your Product from Intellectual Property Rights (IPR) Infringement**

Protection of Intellectual Property Rights (IPR) is handled by the Ministry of Industry and Trade. In 1994 the Ministry set up an office which handles registration of patents, trademarks and copyrights, as well as any complaints regarding their infringement.

To be protected under Honduran law, patents and trademarks must be registered with the Ministry. The life of a patent ranges from 10 to 20 years, depending on the importance of the invention. Trademarks are valid up to 10 years from the registration date. "Notorious marks" are protected under the Pan American Convention (1917), to which Honduras is a party. Illegal registration of a notorious mark, however, must be contested in court if the original holder is to exercise the rights. (Also see Section VII. G.).

#### **M. Need for a Local Attorney**

Selecting a competent and reliable local attorney is an important first step to doing business in Honduras. The advice and counsel of a local attorney is essential to opening a business, preparing contracts, and understanding the legal system. The

Economic/Commercial Section maintains a list of attorneys that have experience assisting U.S. firms.

## **V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT**

### **A. Best Prospects for Non-Agricultural Goods & Services**

1. TRAVEL AND TOURISM SERVICES
2. CONSTRUCTION MACHINERY AND EQUIPMENT
3. BUILDING PRODUCTS
4. POLLUTION CONTROL EQUIPMENT
5. AGRICULTURAL MACHINERY AND EQUIPMENT
6. COMPUTERS/PERIPHERALS AND SOFTWARE
7. TELECOMMUNICATIONS EQUIPMENT
8. HOTEL AND RESTAURANT EQUIPMENT
9. FRANCHISING
10. AUTOMOTIVE PARTS AND ACCESSORIES
11. MEDICAL EQUIPMENT

### **B. Best Prospects for Agricultural Products**

1. CORN
2. RICE (MILLED)
3. WHEAT
4. SOYBEAN MEAL
5. CONSUMER-READY PRODUCTS

### **A. Best Prospects for Non-Agricultural Goods & Services**

#### **Travel and Tourism Services (TRA)**

- A. Sector Rank: 1  
B. Sector Name: Travel and Tourism Services  
C. ITA Industry Code: TRA

#### **Narrative:**

Tourism has increasingly become an important sector for the Honduran economy. With the 1998 creation of the Ministry of Tourism, the market for travel and tourism services looks promising for U.S. investment and joint venture opportunities. The Ministry seeks to promote and develop the tourism sector, as well as formulate, execute, and evaluate inherent tourism policies, which respond to the structural concepts of the State Modernization Law. The new Tourism Incentives Law, which entered into effect December 29, 1998, is aimed at attracting foreign investment in this sector. A wide array of benefits such as tax holidays and tariff exemption, has already been available for several years under the Tourism Free Zone Law (ZOLT). The new

law, however, further simplifies procedures for tourism investment nationwide and transfers management of these incentives from the Ministry of Industry & Trade to the Ministry of Tourism. Tourism development has produced a vigorous growth of the hotel industry, improvement and relocation of international airports and roads and the establishment of local and foreign restaurants. Honduras has a variety of beautiful beaches, wild jungles and majestic ruins and picturesque colonial tours to be explored and visited.

#### **Travel Statistical Data:**

(Number of Visitors - Thousands)

|          | <b>1997</b> | <b>1998</b> | <b>1999</b> | <b>2000</b> |
|----------|-------------|-------------|-------------|-------------|
| Inbound  | 440.3       | 493.3       | 567.2       | 652.2       |
| Outbound | 440.3       | 493.3       | 567.2       | 652.2       |

(The above statistics are unofficial estimates).

From 1998 to 2000, it is expected that there will be an annual increase of 15%. Outbound travel: Reflects the number of travelers departing Honduras. Inbound travel: Reflects the number of travelers arriving in Honduras.

No. of travel agencies in Honduras: 78

No. of international airlines operating in Honduras: 8

No. of international airports: 4

|               |                        |     |
|---------------|------------------------|-----|
| Demographics: | Adult Male Travelers   | 40% |
|               | Adult Female Travelers | 50% |
|               | Child Travelers        | 10% |

#### **Best Prospects:**

- Hotels and resorts with recreational activities
- Infrastructure in protected areas and other tourism areas
- Restaurants
- Ecotourism projects
- Training seminars / courses for personnel in this sector
- Recreational centers (Nightclubs, bars, entertainment parks, water sports)

#### **Construction Machinery & Equipment (CON)**

A. Sector Rank: 2

B. Sector name: Construction Equipment

C. ITA Industry Code: CON



Narrative:

The Government of Honduras has begun a US\$ 1 billion infrastructure rehabilitation program. It includes rehabilitation of existing roads, highways, and bridges, urban road maintenance, flood controls, and repair of damaged streets. Projected average annual import growth rate for the next three years is estimated at 20%, mainly as a result of reconstruction efforts and new private investments in commercial, industrial, and residential projects. Increased activity in the tourism sector will also play an important role in the reactivation of the construction industry in Honduras. Construction equipment falling under the category of capital goods are subject to a 1% duty over the C.I.F. value. Although the government is the main source of infrastructure projects, the largest end-user of construction equipment is the private sector. Both large-and small-scale infrastructure projects, such as road maintenance and repair, are contracted to private construction firms through public bidding. The Honduran market is highly receptive to U.S. construction equipment products because of their good reputation for quality and the availability of parts. Proximity to the U.S., which typically translates into faster and more economical delivery is another significant reason for this preference.

|                        | 1997 | 1998 | 1999 |
|------------------------|------|------|------|
| <b>(USD MILLIONS)</b>  |      |      |      |
| Total Market Size      | 40.5 | 57.7 | 66.3 |
| Total Local Production | 0.0  | 0.0  | 0.0  |
| Total Exports          | 0.0  | 0.0  | 0.0  |
| Total Imports          | 40.5 | 57.7 | 66.3 |
| Imports from the U.S.  | 23.5 | 33.3 | 40.2 |

Exchange Rate: 1 Dollar = 14.34 Lempiras  
(The above statistics are unofficial estimates).

Best Sales Prospects:

Overall, road construction, earth-moving and road rehabilitation and maintenance equipment have the best potential.

- tractors
- backhoes
- shovel loaders
- asphalt mixers
- dumping trucks
- move, grade, level, scrap, excavating, extracting machinery
- parts for machinery for public works and building

-mobile cranes

**Building Products (BLD)**

- A. Sector Rank: 3
- B. Sector name: Building Products
- C. ITA Industry Code: BLD

**Narrative:**

Increased construction activity is expected to spur demand for construction materials and supplies in Honduras. Growth in this sector will be fueled by reconstruction efforts, rehabilitation works, housing projects, and new private investments. The two largest cities in Honduras, Tegucigalpa and San Pedro Sula, are also modernizing and attracting investments that are important for the construction industry. Destination of private construction investments is divided among residential, commercial, industrial, other buildings, expansions, remodelings, and linea construction projects. As a result of growth prospects in the construction sector, local purchases of building products are expected to increase in the short and medium term. The U.S. is the main foreign supplier of building hardware and fixtures to Honduras.

|                       | 1997 | 1998 | 1999 |
|-----------------------|------|------|------|
| <b>(USD MILLIONS)</b> |      |      |      |
| Import Market         | 33.5 | 36.2 | 45.2 |
| Local Production      | N/A  | N/A  | N/A  |
| Total Exports         | 12.1 | 12.8 | 13.9 |
| Total Market          | N/A  | N/A  | N/A  |
| Imports from U.S.     | 16.2 | 17.3 | 19.8 |

Exchange Rate: 1 Dollar = 14.34 Lempiras  
(Source: Honduran Statistics Bureau and year-end estimates).

**Best Sales Prospects:**

- Tubes, pipes, and hoses
- Prefabricated buildings,
- Ceramic bathroom fixtures
- Glass bricks and tiles

- Aluminum doors, windows and door frames
- Door closures
- Plumbing accessories
- Parts for electrical accessories
- Metal hardware articles
- Sanitary fixtures

### **Pollution Control Equipment**

- A. Sector Rank: 4
- B. Sector Name: Pollution Control Equipment
- C. ITA Industry Code: POL

Although pollution control is in its initial stage of development, there is an increasing demand for water treatment and waste water treatment systems in Honduras. Water and sewage infrastructure was severely damaged by Hurricane Mitch, with losses of approximately US\$57.9 million. Tegucigalpa water system was particularly hard hit, while throughout the country need to repair their waste water treatment and sanitary sewage systems. The two major urban areas, Tegucigalpa and San Pedro Sula, have been studying different alternatives to treat their water systems for several years. Public sector projects under consideration include water purification, sewage systems and pre-treatment of waste water effluents. Municipal agencies also plan to privatize several sectors, including trash collection and water services. Several industrial sectors, particularly maquiladora and assembly sectors, are showing a high interest in installing waste water treatment plants for their operations.

In accordance with the 1993 Environmental Law, all industrial companies are required by 1999 to comply with minimum pollution level controls and standards before their waste effluents are discharged into the sewage systems. This law, if properly enforced by the government, will spur demand for waste water treatment plants and equipment.

|                             | 1997 | 1998 | 1999 |
|-----------------------------|------|------|------|
| <b>(USD MILLIONS)</b>       |      |      |      |
| Total Market Size           | 3.2  | 3.6  | N/A  |
| Total Local Production      | 0.0  | 0.0  | 0.0  |
| Total Exports               | 0.0  | 0.0  | 0.0  |
| Total Imports Market        | 3.2  | 3.6  | N/A  |
| Total Imports from the U.S. | 2.1  | 1.9  | N/A  |

Exchange Rate: 1 Dollar = 14.34 Lempiras

(The above statistics are unofficial estimates. Although import market statistics for 1999 are not available, investment requirements for the water and sewage sector amount to 358.2 under the National Reconstruction and Transformation Master Plan).

Best Prospects:

- Potable water treatment equipment
- Municipal waste water treatment equipment
- Sewage and water treatment systems
- Filtering and purifying machinery and apparatus
- Solid waste handling and disposal equipment
- Environmental consulting services
- Pumping stations

**Agricultural Machinery and Equipment (AGM)**

A. Sector Rank: 5

B. Sector Name: Agricultural Machinery & Equipment

C. ITA Industry Code: AGM

Narrative:

The agricultural sector (24% GDP in 1997) was the hardest hit economic sector by Hurricane Mitch, with more than US\$800 million in damages. Major export crops including coffee, bananas, cultivated shrimp and melons suffered losses ranging from 25 percent to nearly 80 percent. The nation's many small producers of basic grains also suffered heavy losses. Honduran farmers, large and small, are now in the market for a wide range of agricultural products ranging from machinery and equipment to seeds, fertilizers, and livestock. The Ministry of Agriculture has developed a 2-year Revitalization Program to pump more credit into the sector and assist reconstruction efforts through incentives. There is virtually no production of field agricultural machinery in Honduras. Many agricultural producers purchase directly from U.S. distributors, especially used equipment.

|                        | 1997 | 1998 | 1999 |
|------------------------|------|------|------|
| <b>(USD MILLIONS)</b>  |      |      |      |
| Total Market Size      | 41.5 | 45.2 | 54.2 |
| Total Local Production | 0.0  | 0.0  | 0.0  |
| Total Exports          | 0.0  | 0.0  | 0.0  |
| Total Imports Market   | 41.5 | 45.2 | 54.2 |

Total Imports from the U.S.        13.1    14.4        17.2

Exchange Rate: 1 Dollar = 14.34 Lempiras  
(The above statistics are unofficial estimates).

Best Prospects:

- Disc plows
- Disc harrows
- Dump trailers
- Brushcutters
- Farm tractors
- Row crop unit planters
- Harvesting machines
- Irrigation equipment
- Boom sprayers

### **Computers/Peripherals and Software**

A. Sector Rank: 6

B. Name of Sector: Computers and Peripherals/Software

C. ITA Industry Code: CPT/CSF

Narrative:

Demand is intensifying with the growing use of computers in most sectors of the economy, especially personal computers and software. Increased IT modernization needs, the introduction of new and faster products, and the challenges posed by the Year 2000 phenomenon provide positive prospects for computer hardware and software sales in Honduras. In addition, the severe damage caused by Hurricane Mitch to various segments of the economy, primarily in industry infrastructure, has created an increased demand for such products. Many businesses and government institutions in low-lying areas were flooded out, causing significant losses in computer equipment. Some of these organizations are taking this opportunity to completely renovate and upgrade their IT systems and operations. In order to reduce the cost of computers in education, import duties for most computers, peripherals, and software products have been reduced from 24% to 1% over the C.I.F. value.

STATISTICAL DATA  
(USD MILLIONS)

|                        | 1997 | 1998 | 1999 |
|------------------------|------|------|------|
| Total Market Size      | 46.8 | 56.2 | 64.6 |
| Total Local Production | 0.0  | 0.0  | 0.0  |
| Total Exports          | 0.0  | 0.0  | 0.0  |

|                       |      |      |      |
|-----------------------|------|------|------|
| Total Imports         | 46.8 | 56.2 | 64.6 |
| Imports from the U.S. | 34.5 | 38.6 | 43.2 |

Exchange Rate: 1 U.S. Dollar = 14.34 Lempiras  
(The above statistics are unofficial estimates).

Best Sales Prospects:

#### **Computers & Peripherals**

- Personal Computers
- Hard disks
- Keyboard units
- Computer monitors
- Server Systems
- Modems
- CD-Rom Drives
- Printer Units
- Computer Software/Multimedia

#### **Computer Software**

- Specialized software applications (accounting, financial)
- General Business Application solutions for Windows
- Systems supporting software
- Software development/programming tools
- Software games

#### **Telecommunications Equipment (TEL)**

A. Sector Rank: 7  
B. Sector Name: Telecommunications Equipment  
C. ITA Industry Code: TEL

Narrative:

Hondutel's upcoming capitalization will provide numerous opportunities for U.S. service providers and equipment suppliers, as the new company expands its networks to meet concession requirements and increased demand. In addition to Hondutel's capitalization, Honduras has significant telecommunications opportunities yet to be exploited. Honduras's unique location at the heart of Central America makes the sector attractive for international companies who wish to penetrate this regional market. There is no local production of telecommunications equipment in Honduras. The Government of Honduras has also announced its intention to sell one of the country's two mobile cellular telephone bands (Band B) before the end of 1999. Demand for cellular telephone services and wireless equipment has

increased since Hurricane Mitch, mainly as a result of the damage to the country's telecom infrastructure.

|                        | 1997 | 1998 | 1999 |
|------------------------|------|------|------|
| <b>(USD MILLIONS)</b>  |      |      |      |
| Total Market Size      | 33.4 | 40.1 | 48.1 |
| Total Local Production | 0.0  | 0.0  | 0.0  |
| Total Exports          | 0.0  | 0.0  | 0.0  |
| Total Imports          | 33.4 | 40.1 | 48.1 |
| Imports from the U.S.  | 30.1 | 34.6 | 39.7 |

Exchange Rate: 1 U.S. Dollar = 14.34 Lempiras  
(The above statistics are unofficial estimates).

Best Sales Prospects:

Most promising sub-sectors include cellular and wireless telephone systems, data transmission equipment, trunked mobile radio systems, and paging systems.

#### **Hotel & Restaurant Equipment and Accessories (HTL)**

- A. Sector Rank: 8
- B. Sector name: Hotel & Restaurant Equipment
- C. ITA Industry Code: HTL

Narrative:

The tourism industry has grown noticeably in the last three years, particularly as evidenced by the construction of new hotels in areas of major economic development in the country. New tourism projects have been developed in the central and northern region of Honduras, attributed to the new incentives that the GOH has provided to investors through the enactment of laws which stimulate tourism investment in the country, such as the Tourism Free Zone Law (ZOLT). The largest concentration of hotels and restaurants is found in Tegucigalpa and San Pedro Sula. It is expected that this industry will have an annual increase of 33% on the next two years.

|                          |                   |             |             |             |
|--------------------------|-------------------|-------------|-------------|-------------|
| <b>Statistical Data:</b> | <b>(Estimate)</b> |             |             |             |
| <b>(USD MILLIONS)</b>    | <b>1997</b>       | <b>1998</b> | <b>1999</b> | <b>2000</b> |
| Total Market Size        | 20.2              | 26.4        | 34.5        | 42.5        |

|                             |      |      |      |      |
|-----------------------------|------|------|------|------|
| Total Local production      | 0.3  | 0.4  | 0.5  | 0.6  |
| Total Exports               | 0.0  | 0.0  | 0.0  | 0.0  |
| Total Imports               | 19.9 | 26.0 | 34.0 | 42.0 |
| Total Imports from the U.S. | 13.6 | 18.0 | 23.9 | 30.7 |

Exchange Rate: 1 Dollar = 14.20 Lempiras  
(The above statistics are unofficial estimates).

New hotel projects through the year 2000:

|                  | <b>Hotels</b> | <b>Investment<br/>(in millions US\$)</b> |
|------------------|---------------|--|
| Tegucigalpa      | 4             | 5.8                                      |
| San Pedro Sula   | 3             | 24.3                                     |
| Bay Islands      | 9             | 40.2                                     |
| La Ceiba         | 1             | 0.6                                      |
| Tela             | 1             | 24.3                                     |
| Valle de Angeles | 1             | 0.2                                      |
| <b>TOTAL</b>     | <b>19</b>     | <b>95.4</b>                              |

Best Prospect Sales:

- Carpets
- Comforters
- Washers
- Televisions
- Telephones
- Table Kitchenware
- Air conditioning and refrigeration equipment
- Electric hand-drying apparatus
- Wooden Furniture
- Kitchen appliances

### **Franchising**

- A. Sector Rank: 9
- B. Sector Name: Franchising
- C. ITA Industry Code: FRA

Franchising has been a recent development in Honduras. Progress has been rapid, however, and several U.S. franchisors have a presence in the local market, with plans for further expansion. Although Honduras is a relatively small market, expansion opportunities exist and the future for U.S. franchising appears promising. Franchising operations, mainly of U.S. corporations, have grown at a fast pace during the 1990s. At present, over 45 franchisors are operating in Honduras. Honduras has no locally



developed franchises. Locally, franchising has mainly grown in attractiveness as a strategy for exploiting business opportunities in the fast food sector, which accounts for almost 50 percent of the total market. The cities of Tegucigalpa, Honduras' capital, and San Pedro Sula, the country's main business center, have the greatest concentration of franchised outlets.

The market for franchising is expected to grow at an annual rate of 10-15 percent for the next three years. Driven by the challenges posed by the globalization of world markets and hemispheric economic integration, many Honduran companies are searching for co-investments and strategic alliances in order to become more competitive. Despite economic hindrances, a growing number of local firms are seeking franchising agreements as a means for acquiring brand equity, business technology, and economies of scale. In general, franchising in Honduras has emerged through the establishment of strong and reputable franchise companies, ensuring brand recognition among local consumers. The apparent success of local franchise operations is primarily attributed to the speed of service and quality of products offered by these firms. Franchising in Honduras has come to meet consumer needs, often long unsatisfied.

Data Table:

No official figures are available regarding franchise fees, sales or investment. Franchising operations such as hotels, copying and printing, casual clothing, delivery and packaging, casual dining/restaurants, cosmetics & toiletries, video rental, and recreation and entertainment also represent good prospects for future investments in this sector. U.S. franchisors, however, must ascertain the basic practicability of transporting their business system to Honduras by engaging in a thorough market research study before expanding locally. Although there are various commercial similarities and familiarity with the English language and U.S. culture, firms entering the Honduran market through franchising operations must determine if they will follow a standardized or differentiated strategy with reference to product, price, and promotion.

**Automotive Parts and Accessories (APS)**

- A. Sector Rank: 10
- B. Sector Name: Automotive Parts and Accessories
- C. ITA Industry Code: APS

Narrative:

An aging motor vehicle population and the massive importation of used vehicles into Honduras continues to fuel demand for automotive parts and accessories in the local market. According to industry sources, approximately 65 percent of the total car population is 5 years of age or older and is in need of frequent

repair. The import of U.S. made vehicles has also increased significantly over the last two years, posing greater opportunities for American exporters. There are more than 300 retailers of automotive parts and accessories in Honduras who buy directly from overseas or through local distributors.

|                        | 1997 | 1998 | 1999 |
|------------------------|------|------|------|
| <b>(USD MILLIONS)</b>  |      |      |      |
| Total Market Size      | 70.3 | 77.2 | 84.9 |
| Total Local Production | 0.0  | 0.0  | 0.0  |
| Total Exports          | 0.0  | 0.0  | 0.0  |
| Total Imports          | 70.3 | 77.2 | 84.9 |
| Imports from the U.S.  | 31.2 | 35.8 | 39.4 |

Exchange Rate: 1 Dollar = 14.34 Lempiras  
(The above statistics are unofficial estimates).

#### Best Sales Prospects

- Transmission/fan belts
- Gaskets
- Transmission parts
- Ignition wiring sets
- Parts and accessories for motor vehicles
- Engine parts
- Electrical system parts
- Transmission parts
- Suspension parts
- Tires

#### Medical Equipment (MED)

- A. Sector Rank: 11
- B. Sector Name: Medical Equipment and Supplies
- C. ITA Industry Code: MED

#### Narrative:

The Government of Honduras (GOH) is currently working on the modernization and improvement of health sector services, the construction of more hospitals throughout the country and the acquisition of more medical equipment and supplies. The GOH, through the Ministry of Public Health, has announced that it is considering privatizing some of the medical services it currently provides to the population. Private hospitals, on the other hand, continue to modernize and are increasing their investments in new equipment. Honduran families, both from the upper and middle classes, often travel to the United States for specialized health

care. The opening of a new private hospital in Tegucigalpa, Las Lomas Medical Center will target upper class patients by offering state-of-the-art medical services, thus reducing the need for specialized medical assistance outside of the country. In general, it is expected that this industry will have an annual increase of 20% for the next two years.

**Statistical Data:**

|                        | 1997 | 1998 | 1999 | 2000 |
|------------------------|------|------|------|------|
| Total Market Size      | 7.7  | 9.2  | 11.0 | 12.2 |
| Total Imports          | 7.7  | 9.2  | 11.0 | 12.2 |
| Total Local Production | 0.0  | 0.0  | 0.0  | 0.0  |
| Total Exports          | 0.0  | 0.0  | 0.0  | 0.0  |
| Imports from U.S.      | 2.9  | 3.5  | 4.2  | 7.0  |

Exchange Rate: 1 Dollar = 14.20 Lempiras  
(The above statistics are unofficial estimates).

**Best prospects:**

- Medical disposable (especially syringes, examination gloves, infusion sets, catheters and collection bags)
- X-ray equipment
- Fluoroscopes
- Mammography
- Cardiac monitors
- Ultrasonic imaging equipment
- Spectrophotometer
- Microscopes
- Surgical tables
- Surgical lights

**B. Best Prospects for Agricultural Products**

**Corn**

A. Rank: n/a

B. Name of Sector: Corn

C. ITA or PS&D Code: 0440000

**Narrative:**

The following data are on a July/June basis. The indicator years specified below correspond to the first year of the split marketing year.

Corn is the grain produced on the largest scale in Honduras. Lack of affordable credit for grain farming, poor seed quality, several consecutive years of weather anomalies, and other factors have prevented Honduras from becoming self-sufficient, however. Given the fact that Honduras produces mostly white corn, which is utilized mainly for human consumption, imports of yellow corn from the United States have been necessary to meet feed demand.

Although overall Honduran grain output took a sharp downturn as a result of Hurricane Mitch, a recent GOH production survey shows that corn damage was not as dramatic as initially expected. For 1998/99, government numbers show a total of 503,961 MT of corn being produced, a 15 percent drop from the previous period. This raised import needs to an estimated 240,000 MT during the period. As far as export prospects for the United States in 1999/00, it is expected that Honduras will need to import a much lesser amount (forecast at roughly 130,000 MT) depending on the outcome of the local crop. As usual, the vast majority is expected to come from the United States, but regional trade also plays a part.

|                                   | 1997 | 1998 | 1999 |
|-----------------------------------|------|------|------|
| D. Total Market Size (000 MT)     | 670  | 739  | 760  |
| Total Local Production (000 MT)   | 595  | 504  | 625  |
| F. Total Exports (000 MT)         | 5    | 0    | 10   |
| G. Total Imports (000 MT)         | 66   | 240  | 130  |
| H. Imports from the U.S. (000 MT) | 63   | 240  | 130  |

(STATISTICS ARE UNOFFICIAL ESTIMATES)

#### **Rice (Milled)**

A. Rank: n/a

B. Name of Sector: Rice (Milled)

C. ITA or PS&D Code: 0422110

Narrative:

The following data are on a July/June basis. The indicator years specified below correspond to the first year of the split marketing year.

Of all the grains produced in Honduras, rice is the one produced on the smallest scale. Chronic production problems have not allowed domestic rice farmers to increase their output and keep up with demand. As a result, rice imports have become a necessity in Honduras. Historically, virtually all rice imports have been sourced from the United States. In calendar year 1998 the United States exported an all-time-high of \$19.8 million of worth of rice to Honduras, an increase of nearly 50 percent from the previous record set only a year earlier. Imports of less expensive rice from Southeast Asia, although prohibited for phytosanitary reasons, have taken place in the past and are an impending threat to U.S. suppliers. A large amount of non-U.S. rice donations which took place after Mitch reportedly entered commercial channels and competed for a piece of the Honduran rice market as well.

Overall rice imports are estimated at approximately 60,000 MT (milled equivalent) in 1998/99 and import demand is expected to remain strong in 1999/00. Generally speaking, local rice millers prefer to import paddy rice for price reasons and to keep their plants running. However, milled rice is also imported into Honduras.

|                                    | 1997 | 1998 | 1999 |
|------------------------------------|------|------|------|
| D. Total Market Size (000 MT)      | 68   | 71   | 73   |
| E. Total Local Production (000 MT) | 33   | 13   | 15   |
| F. Total Exports (000 MT)          | 0    | 0    | 0    |
| G. Total Imports (000 MT)          | 30   | 60   | 60   |
| H. Imports from the U.S. (000 MT)  | 30   | 50   | 55   |

(STATISTICS ARE UNOFFICIAL ESTIMATES)

## **Wheat**

A. Rank: n/a

B. Name of Sector: Wheat

C. ITA or PS&D Code: 0410000

Narrative:

The following data are on a July/June basis. The indicator years specified below correspond to the first year of the split marketing year.

Because its land and climate characteristics are unsuitable for commercial wheat farming, Honduras does not produce wheat in any significant quantities. Therefore, Honduras depends strictly on imports to fill its wheat demand. Total imports are estimated at approximately 150,000 MT in 1998/99, with the vast majority coming from the United States. During the 1999/00 marketing year, total imports are expected to inch upward. As usual, the United States should remain Honduras' main source for wheat, both through commercial channels and donations as well. Therefore, export opportunities for U.S. suppliers remain bright.

|                                   | 1997 | 1998 | 1999 |
|-----------------------------------|------|------|------|
| D.Total Market Size (000 MT)      | 145  | 150  | 152  |
| E.Total Local Production (000 MT) | 0    | 0    | 0    |
| F.Total Exports (000 MT)          | 0    | 0    | 0    |
| G.Total Imports (000 MT)          | 147  | 150  | 155  |
| H.Imports from the U.S.(000 MT)   | 140  | 140  | 145  |

(STATISTICS ARE UNOFFICIAL ESTIMATES)

#### **Meal, Soybean**

- A. Rank: n/a
- B. Name of Sector: Meal, Soybean
- C. ITA or PS&D Code: 0813100

#### **Narrative:**

The following data are on an October/September basis. The indicator years specified below correspond to the first year of the split marketing year.

Growing poultry and shrimp sectors in Honduras have triggered a growing demand for soybean meal in recent years. Traditionally, Honduras has filled virtually all of its soybean meal demand with U.S. product. Domestic production is negligible and is not likely to increase significantly in the near future. During calendar year 1998 the United States exported a record high 68,391 MT of soybean meal & cake to Honduras worth nearly \$15 million. Continued expansion in the feed industry, particularly for poultry production, should continue to fuel the demand for

U.S. soybean meal in coming years. However, the overall economic downturn resulting from Mitch may keep import demand in check to some degree.

|                                  | 1997 | 1998 | 1999 |
|----------------------------------|------|------|------|
| D.Total Market Size (000 MT)     | 50   | 69   | 70   |
| E.Total Local Production(000 MT) | 1    | 1    | 1    |
| F.Total Exports (000 MT)         | 0    | 0    | 0    |
| G.Total Imports (000 MT)         | 49   | 68   | 70   |
| H.Imports from the U.S.(000 MT)  | 49   | 68   | 70   |

(STATISTICS ARE UNOFFICIAL ESTIMATES)

#### **Consumer-Oriented Products**

- A. Rank: n/a
- B. Name of Sector: Consumer-Oriented Products
- C. ITA or PS&D Code: n/a

#### **Narrative:**

The following data are on a calendar year basis.

It is estimated that in 1998 Honduras imported over \$100 million in consumer-oriented agricultural products. In recent years, import demand for food products has been strong. This is due in part to development in food distribution, particularly at the retail level, and trade liberalization during the 1990's which has provided consumers greater access to imported products.

In 1998, the United States exported a record \$44.2 million in consumer-oriented agricultural products to Honduras, surpassing the previous year's high by 40 percent. U.S. exports to Honduras of snack foods, breakfast cereals & pancake mix, red meats, poultry meat, dairy products, eggs and products, fresh fruit, processed fruits & vegetables, wine & beer, pet foods (dog & cat), and the 'other' category of consumer-oriented products all established new highs in 1998.

Domestically and regionally produced breakfast cereals, snacks, canned goods, juices and beers may offer a significant degree of competition. Nonetheless, U.S. consumer-oriented products enjoy a significant edge in Central America. Virtually all of the middle income and wealthy consumers in the area have been to the United States. They know the quality of U.S. products and they are familiar with U.S. brands. Moreover, many Hondurans have

access to U.S. cable T.V., which helps influence the purchasing habits and diet of many consumers. Continued expansion of U.S. fast food franchises and considerable development in the tourism sector promise to keep demand for imported food products on the rise. However, the record-setting pace of imports is expected to taper-off somewhat given the economic downturn caused by Mitch.

|                                       | 1998 | 1999 | 2000 |
|---------------------------------------|------|------|------|
| D. Total Market Size (US\$ mill.)     | n/a  | n/a  | n/a  |
| E.Total Local Production (US\$ mill.) | n/a  | n/a  | n/a  |
| F.Total Exports (US\$ mill.)          | n/a  | n/a  | n/a  |
| G.Total Imports (US\$ mill.)          | 105  | 110  | 115  |
| H. Imports from the U.S. (US\$ mill.) | 44   | 50   | 55   |

(STATISTICS ARE UNOFFICIAL ESTIMATES)

## **VI. TRADE REGULATIONS, CUSTOMS, AND STANDARDS**

### **A. Trade Barriers, Including Tariffs, Non-Tariff Barriers**

Until the mid-1980's, Honduras' development strategy was based on the import substitution model, supported by protectionist measures and ample public sector intervention. After the 1990 Economic Reform Program, Honduras moved towards a more liberalized international trade regime, aimed at eliminating trade barriers and strengthening its commercial relations with the rest of the world.

Honduras belongs to the Central American Uniform Tariff Schedule (NAUCA II) and the General Treaty for Central American Economic Integration, both of which govern imports into Honduras. The reduction of import duties has remained an important item on the agenda of the Central American countries since 1995. Ad valorem duties are applied to most products and, in some cases, administrative and selective consumption taxes.

Imports of vegetable and animal origin must fulfill sanitary conditions. Zoo-sanitary permits are obtained through the Ministry of Natural Resources, in accordance with sanitary import/export regulations. When considered harmful, imports are regulated by the Ministry of Public Health. In the case of food and beverage products, these must fulfill the same registration requirements established for national products in relation to residual chemical content, artificial flavoring, coloring, and preservatives.



## B. Customs Regulations

The normative and administrative operations of the local custom system are regulated by the Honduran Customs Law. Honduran customs legislation covers seven different regimes: definitive, temporary, warranty and non-warranty repairs, suspensive, exceptive, complementary, and special customs regimes.

The current customs valuation rate (FVA) is applied according to the value or base price established in the Central Bank's foreign exchange auction system. At present, the method of valuation used in Honduras is the Brussels Customs Value, which relates to the invoice value (the price actually paid for the goods). However, Honduras is on schedule to implement the WTO Customs Valuation Agreement by January 1, 2000.

## C. Tariff Rates and Import Taxes

The duty assessed by the Honduran government at the time of customs clearance ranges between 1 to 19 percent for most items. Sensitive items such as automobiles will be assessed a higher rate, up to a 35 percent ceiling. In 1995, Honduras and other Central American Common Market (CACM) members agreed to work toward the full implementation of a common external tariff (CET) ranging between 0 and 15 percent for most products, but allowed each country to determine the timing of the changes. In keeping with this commitment, on April 24, 1997 the Honduran Congress passed the Tariff Matching Law. This law effectively reduced tariff rates for certain raw materials and inputs produced outside the Central American Region from 3 percent as of May 31, 1997 to 1 percent as of December 1, 1997. Capital goods were previously reduced to 1 percent on January 1, 1997. Honduras intends to reduce its extra regional tariffs according to the schedule below.

|  | 7/96 | 1/96 | 12/1/97 | 12/31/97 | 12/31/98 | 12/31/99 | 12/00 |
|--|------|------|---------|----------|----------|----------|-------|
| Capital Goods  | 3%   | 1%   |         |          |          |          |       |
| Raw Materials  | 1%   |      |         |          |          |          |       |
| (used to manufacture pharmaceutical products; and fertilizers, insecticides and fungicides for agricultural use) |      |      |         |          |          |          |       |
| Other Raw Materials  |      |      | 1%      | 3%       |          |          |       |

|                                     |     |     |     |     |
|-------------------------------------|-----|-----|-----|-----|
| Intermediate goods<br>with 10% duty | 5%  |     |     |     |
| Intermediate goods<br>with 15% duty | 10% |     |     |     |
| Finished goods with<br>a 20% duty   | 19% | 18% | 17% | 15% |

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source: Honduran Ministry of Industry and Trade.

Among the products that are exempt from this gradual reduction tariff program are alcohol, vehicles, textiles and petroleum-derived products. A selective consumption tax is applied to some products that are considered non-essential, such as alcoholic beverages (20%) and cigarettes (55%). A 12% sales tax is applied to most products. Goods exempted from this tax include staple foods, fuels, medicines, agrochemicals, household cleaning products, books, magazines and educational materials, agricultural machinery and tools, handicrafts, and capital goods such as trucks, tractors, cranes, and computers, among others. A 15% sales tax is applied to alcohol and tobacco.

A variable levy price band mechanism, ranging from 5-45 percent, for selected grain products has been in place since 1992. Imports of corn, sorghum, and corn meal and groats entering with prices above the band are assessed lower duties, according to a predetermined schedule, and those imports priced below the band are assessed higher duties.

In order to comply with the General Agreement on Tariffs and Trade (GATT) accession requirements, the administrative customs service was reduced from 1.5 percent to 0.5 percent on December 31, 1996. Under the "Economic & Social Plan to Stimulate Production and Competition & Promote Human Development" of April 30, 1998, the administrative customs service tax is levied at 0% for most products.

#### **D. Import License Requirements**

In the bilateral negotiations on Honduras's accession to the GATT, the Honduran Government committed to using GATT-consistent measures to protect basic grains and poultry. Nonetheless, although all import licensing requirements have been eliminated, Honduras has an onerous zoo-sanitary requirement system that limits market access to U.S. agricultural products, such as chicken parts. Import registration procedures have only been maintained for statistical purposes.

#### **E. Temporary Goods Entry Requirements**

The Temporary Import Law (RIT), enacted in 1984, allows exporters to introduce raw materials, parts, and capital equipment into

Honduran territory exempt from surcharges and customs duties -- as long as the product is to be incorporated into a product which is exported outside of the country. This law also provides a 10-year tax holiday on profits from these non-traditional exports, under certain conditions. Interested parties may obtain authorization for this program through the Ministry of Industry and Trade. Amendments made to the RIT law in 1997 allow manufacturers to export their products into other Central American countries. These amendments also enable local importers to resell the machinery and equipment no longer needed, by paying a 1 percent import duty based on the C.I.F. price of the machinery.

Companies that do not operate in free trade zones or export processing zones fall under the jurisdiction of the Temporary Import Law. At present, 457 companies are incorporated into the RIT program.

#### **F. Import/Export Documentation**

Documents required for import/export:

- Commercial Invoice
- Bill of Lading (for ocean or surface freight)
- Airway Bill (for air freight)
- Certificate of Origin or Certificate of Title for vehicles
- Phyto-or Zoo-Sanitary Certificate (where appropriate)

The Honduran Government insists that sanitary permits be obtained for imported foodstuffs. All commercial imports must also be accompanied by proof that the dollars used to purchase them were acquired through the Honduran commercial banking system.

Honduran law requires all exporters (except for free trade zone or export processing zone exporters) to inform the Central Bank, in advance, about the quantity, value, and destination of the goods to be exported, as well as the probable date of export and the value and currency of anticipated export revenues.

#### **G. Labeling Requirements**

Honduran law requires that all processed food products be labeled in Spanish and registered with the Division of Food Control (DFC) of the Ministry of Public Health. Although enforcement of existing laws and regulations is somewhat lax at present, the Honduran Government is striving to improve this situation. The following information is currently required on labels of all food products:

**1. Name of the product.** The name, which is normally specific and not generic, must indicate the true nature of the product. When a specific name is not available, the common name normally

associated with the product should be used, as long as it is not misleading to the consumer.

2. **Name of the manufacturer or packaging company.**

3. **Origin** (country).

4. **List of ingredients** (except for single-ingredient products). The list should be clearly marked and must be in descending order by initial weight (m/m) at the time the product was manufactured. The list must specify if water has been added, except in cases when water is part of an ingredient such as brine, syrup or broth. When a product contains one or more additives, the label must specify the name, purpose, and concentration of each. When a product contains enriched nutritious substances, such as vitamins, mineral salts and proteins, the label should read: "Naturally Enriched Food Product" or "Enriched Artificial Food Product," whichever the case may be. The label should also specify the name and the content per serving or consumption unit.

5. **Lot number.** This number must be engraved or marked in an indelible manner and may be placed on any external surface of the package.

6. **Expiration date.** When the product has a short life span, the day, month and year of expiration must be specified. The following products are excluded from this requirement: alcoholic beverages containing 10 percent or more of alcohol by volume, bakery products which due to their nature are generally consumed within 24 hours of the time they were produced, vinegar, salt, chewing gum, fresh fruits and vegetables.

7. **Net content.** The content must be specified in units of the international system and in the following manner: by volume for liquid food products, by weight for solid food products, and by either weight or volume for semi-solid or viscous food products.

8. **Sanitary registration number provided by the DFC.**

In addition to the above, food products must also adhere to the following labeling requirements:

1. Labels may be made of paper or any other material that can be attached or permanently printed on the package.

2. All writing on labels shall be made in a clear and legible manner and shall not fade under normal use. All inscriptions should also be made in Spanish, unless authorized otherwise by the DFC.

3. Labels that are attached to a container may have inscriptions on the reverse as long as they are clearly visible through the container.

4. The information contained in the label of pre-packaged foods shall not be misleading in any way as to the product's: true nature, composition, quality, origin, quantity, expiration, essential properties and the general treatment(s) to which it was submitted.

5. When the product requires refrigeration, it must be labeled accordingly.

6. When the product is easily contaminated and requires refrigeration after opening or must be consumed immediately, the label must state either: "For immediate consumption after opening" or "Refrigerate after opening", whichever the case may be.

7. When the product is artificial, it must be labeled accordingly.

8. All food products which have been treated with radiation (ionizing energy) must specify on the label (close to the product's name) the nature of the treatment. When an irradiated product is utilized as an ingredient in another product, this must be specified on the list of ingredients.

9. Product labels should not be misleading, cause erroneous interpretations, or confusion.

10. Products should not be labeled as to imitate another product.

11. Labels are not permitted on the internal part of a package or container, which would cause it to come in contact with the product itself.

12. Product labels should not indicate that the product has therapeutic, preventive or healing, or any other attributes not normally associated with the product.

13. Required labeling information should not be displayed on strips, bands, lids, tops, covers, caps, or any other part of the package which is used in opening the product, unless so authorized by the DFC.

14. Labels of products for export may be partially or wholly written in the language of the country of destination and may contain the inscription: "For Export."

Legally, products cannot be imported into Honduras with just the standard U.S. label. However, since a large share of imported foodstuffs are of U.S. origin and the GOH recognizes that in the vast majority of cases U.S. food products are wholesome and safe to consume, the GOH generally allows the importation of U.S. products which simply display the standard U.S. label. Stick-on

labels are also allowed in order to fully comply with Honduran labeling requirements.

Samples need not be registered with the DFC, nor are they required to be labeled. However, all samples are subject to laboratory analysis and DFC approval. Bulk-packed or institutional-size products may display only one label per package, as long as smaller individual packages are not intended for individual retail sale.

Honduras has no requirements regarding nutritional labeling. Consequently, the U.S. nutrition panel is fully acceptable. As mentioned earlier, products with limited shelf-life are required to display an expiration date. In practice, the DFC usually determines the shelf-life for perishable products. The U.S. bar code system is not fully widespread throughout Honduras yet, but it is used in major retail outlets. The DFC is not opposed to the bar code being included on labels. Any exceptions to the above requirements must be approved by the DFC.

#### **H. Prohibited Imports**

The Honduran Government forbids the import of items that compete with certain domestic industries. These protected industries vary over time, but at present include cement, sugar and rice from southeastern Asia as well as beef from South America. Import restrictions are also imposed on firearms and ammunition, toxic chemicals, pornographic material and narcotics. Other import restrictions are applied to chicken meat, and cosmetics. Import restrictions are mostly based on phyto-sanitary, public health, public moral, and national security factors.

#### **I. Warranty and Non-Warranty Repairs**

Duties/taxes charged on replacement parts, or on goods brought in temporarily for repair and re-exported are covered by the Temporary Import Law (RIT) and Export Processing Zone regimes.

#### **J. Export Controls**

Export controls have only been used for sugar exports. Exporters must demonstrate sufficient supplies to meet domestic needs prior to receiving permission to export. Certain restrictions also apply to certain wood and animal species. The only items under price control are coffee and medicines. The government of Honduras also keeps an informal control over prices of certain staple products such as milk and sugar. Export taxes on seafood, sugar and live cattle were eliminated in 1998. All coffee exports must be registered with the Honduran Coffee Institute.

#### **K. Standards (E.G. ISO 9000 Usage)**

Although Honduras is not currently subscribed to the International Standards Organization (ISO), initial steps are being taken to obtain ISO membership by the year 2000. The Standards and Metrology division of the Ministry of Industry & Trade is in the process of establishing a Quality Management Technical Committee responsible for reviewing ISO 9000 and ISO 14000 technical norms before submitting a formal National Council Certification request. ISO certification for local companies is currently conducted through international institutions. Only approximately 5 Honduran companies are already ISO-certified.

#### **L. Free Trade Zones/Warehouses**

Free trade zones (FTZ) are non-residential areas designated by the government where companies receive special benefits. FTZs can be managed privately or by the National Port Authority (E.N.P.). The E.N.P. approves all permits to operate in the designated areas and maintains the established guidelines put forth in the FTZ. The FTZ law was originally established to create the Puerto Cortés Free Zone. In 1998, however, the government extended FTZ benefits to the entire nation.

A company that locates in a free trade zone, industrial park or export processing zone (ZIP) is exempt from payment of import duties on goods and capital equipment, charges, surcharges, selective consumption taxes, and sales taxes. In addition, the production and sale of goods within these areas are exempt from Honduran federal and municipal taxes. Firms operating in these zones are exempt from income tax for 20 years and municipal taxes for 10 years, and there are no controls or restrictions over the use of foreign exchange or the repatriation of capital profits. The movement of imported components and exported products is handled with a minimum of paperwork and is normally done within hours. Firms operating in the FTZ must grant workers all benefits established by Honduran labor legislation.

Privately-owned Tourism Free Zones (ZOLT) may be established to promote tourism industry development in Honduras. Legislation covering ZOLTs allows the free importation of equipment, supplies and cargo/passenger vehicles that will exclusively benefit the ZOLT and the construction of its installations. Import benefits also apply to boats, yachts, and airships that will be used exclusively for the Tourism Free Zone. Authorization requests for operating a ZOLT must be approved by the Ministry of Tourism and the Ministry of Industry and Trade. Revenues generated in ZOLTs are subject to Central Bank regulations.

#### **M. Membership in Free Trade Arrangements**

The Final Act of the Multilateral Commercial Negotiations of the Uruguay Round, which established the World Trade Organization (WTO), was signed by Honduras on April 15, 1995. Honduras is also a member of the Central American Common Market (CACM), which

includes Costa Rica, El Salvador, Nicaragua, and Guatemala. Panama, although not a full member of the CACM, has participated in CACM activities. Members of the Northern Triangle (Honduras, Guatemala, and El Salvador) are currently in the final stages of negotiations for the establishment of a free trade agreement with Mexico. At the regional level, Honduras and the rest of Central America are also negotiating a free trade agreement with Chile and Panama. In addition, Central American countries are studying proposals for negotiating free trade agreements with the Andean Community and Taiwan. Although not yet signed, Honduras has completed 90% of negotiations for a free trade agreement with the Dominican Republic.

The CACM members are working toward full implementation of a common external tariff (CET), which currently ranges between 1-19 percent for most products. In 1995, the CACM members agreed to reduce the CET to 0-15 percent, but allowed each member country to determine the timing of changes. With the exception of certain items, there are no duties for products traded among CACM members.

Honduras benefits from three preferential trade arrangements with the United States. Special export arrangements have been established through the Caribbean Basin Economic Recovery Act (CBERA), the Generalized System of Preferences (GSP), and the "9802 Textile Program." Both CBERA and GSP provide unilateral and temporary duty-free trade preferences to designated countries, including Honduras, by the United States. The 9802 Program provides for reduced duties and liberalized textile and apparel quotas under HTS subheadings 9802.00.60 and 9802.00.80.

#### **N. Customs Contact Information**

The Honduran Customs Directorate operates under the Ministry of Finance. Primary contact information is as follows:

Customs and Tax Division

Address: Ave. Cervantes, Plaza Morazán, Tegucigalpa, Honduras  
6343 Apdo. Postal 6343, Tegucigalpa, M.D.C.

Telephone: (504) 238-6790

Fax: (504) 220-0898

Contacts: Lic. Aquiles Izaguirre Medina, Director

Lic. Leslie Ynestroza, Deputy Director

### **VII. INVESTMENT CLIMATE STATEMENT**

#### **A. Openness to Foreign Investment**

The Honduran economy was severely affected by Hurricane Mitch, which struck the country in late October 1998. Investment and non-traditional exports were among the sectors that suffered major damage. Preliminary figures for foreign direct investment



in 1998 show an investment amount of US\$ 1.04 billion (US\$ 536 million investment in the maquila sector). The Central Bank reported foreign investment made in 1998 in the manufacturing industry (other than maquila) as US\$ 43.8 million and in the tourism industry as US\$ 26.7 million.

With an approved 1999 budget of US\$ 1.4 billion, the Government of Honduras will direct its efforts to achieving the objectives contained in the National Reconstruction Master Plan for the period 1999-2001. These will include spending on economic, social and productive infrastructure construction projects, sustainable economic development, human development, and poverty reduction. Projected total expenditures by the central government for 1999 are expected to increase by 28 percent over 1998. Best prospects for foreign investment during 1999 will include the health sector, public works, and agriculture. The management of international airports, the telephone company, and the electricity distribution system are scheduled to be privatized within the next two years.

Honduras welcomes foreign investors and can offer them a range of benefits. The ratification of the 1992 Investment Law, free trade zones, low labor costs and the reduction of trade barriers have made Honduras increasingly attractive to investors.

The 1992 Investment Law guarantees national treatment to all foreign private firms in Honduras, with only a few exceptions. The law does not limit foreign ownership of businesses, except for those specifically reserved for Honduran investors, i.e., small firms with capital less than 150,000 lempiras (US\$ 11,000). Additionally, government authorization is required for both foreign and domestic investors in the following areas:

- Basic health services.
- Telecommunications.
- Generation, transmission, and distribution of electricity.
- Air transport.
- Fishing, hunting and aquaculture.
- Exploitation of forestry resources.
- Investigation, exploration, and exploitation of mines, quarries, petroleum and related substances.
- Agricultural and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974.
- Insurance and financial services.

- Private education services.

According to the 1992 Investment Law, all local and foreign direct investment must be registered with the Investment Office of the Ministry of Industry and Trade (formerly the Ministry of Economy). Registration is to be carried out immediately and the investor is to be issued an investment certificate within twenty-four hours of presenting the request. The investment certificate provides investment protection under the law and guarantees investors international arbitration rights. If the activity requires special government approval, the Ministry submits the case to the appropriate agency, which must recommend approval or disapproval of the registration within sixty days. If the opinion is favorable, the investment is to be registered immediately. In practice, registration can take much longer, and the office has not functioned well.

Foreign investors face some discriminatory treatment in Honduras. To participate in public tenders, foreign firms are required to act through a local agent. By law, local agency firms must be at least 51 percent Honduran-owned. Dividends paid to foreign investors are taxed at 15 percent, while local investors pay only 10 percent. Additionally, Honduran law requires majority Honduran ownership in the following areas: commercial fishing, local transportation, those areas benefiting directly from the National Agrarian Reform Law, and insurance companies. Finally, Honduran professional bodies heavily regulate the licensing of foreigners to practice law, medicine, engineering, accounting, and other professions.

While the law does not permit discriminatory or preferential export and import policies affecting foreign investors, some do exist. The 1992 Investment Law guarantees freedom to export and import to all foreign investors, and eliminates the requirement of prior administrative permits and licenses, except for statistical registries or customs procedures. In practice, however, the Government of Honduras has used phyto-sanitary and zoosanitary requirements to prevent import of U.S. poultry, feed grains and rice to Honduras.

Although there is a clear preference on the part of the Government of Honduras for new foreign investment in export industries, there are no officially mandated requirements that foreign investors must satisfy as a condition for investing in Honduras. As a result of Hurricane Mitch, during 1999 the Government of Honduras will promote investment in health, public works, and agriculture. There is a requirement that a privately-operated industrial park must generate 5,000 new jobs within five years of start up, but this applies to all owners, foreign or national. By December 1998, these industrial parks had generated over 110,000 jobs, an increase of 26 percent over 1997. In the last few months of 1998, Congress passed a series of laws

designed to promote investment in renewable energy, tourism, agro-industry, and mining. The Government has been slow to implement these laws. In the view of many senior Honduran officials, the country's natural resource base, labor costs, freedom of entry, competitive exchange rate and political stability are the best incentives.

U.S. citizens wishing to travel to Honduras do not need a visa prior to arrival. However, foreigners interested in working in the country must obtain a resident visa from the Honduran Ministry of Government and a work permit from the Ministry of Labor. The time required to complete the resident visa and work permit process may take up to three months; however, there is no evidence of discrimination against foreigners in the granting of these documents.

### **B. Right to Private Ownership and Establishment**

The Investment Law guarantees both local and foreign investors the right to own property without limitations, other than those established by the Honduran constitution and the corresponding laws. This guarantee includes the right to free acquisition, profit, use, disposition and any other right attributable to property ownership. The major exception is the constitutional prohibition of foreign ownership of land within 40 kilometers of land borders and shorelines. Congress is contemplating a constitutional amendment waiving this prohibition for tourism development purposes. In addition, owners -- foreign or national -- of large tracts of agricultural land face certain restrictions in the sale of the land imposed by the Agrarian Reform Law.

In addition, investors have the right to freely establish, acquire, and dispose of interests in business enterprises at market prices, under freely negotiated conditions, and without government intervention. Private enterprises compete on an equal basis with public enterprises with respect to access to markets, credit, and other business operations. Access to credit by private enterprises, however, has been limited as a result of the Central Bank's high legal reserve requirement on commercial bank deposits which, in part, is being used to finance the government's fiscal deficit. This high reserve requirement, currently of 25 percent, makes loans relatively expensive.

### **C. Protection of Property Rights**

Potential investors are urged to seek legal advice and use caution when contemplating setting up operations or buying property in areas along the north coast, the Bay Islands or outside of major metropolitan areas. Rules and laws pertaining to property titles in Honduras are uncertain and unreliable. For instance, even though the Honduran Congress passed laws authorizing the purchase of coastal property and tourism zones,

there are constitutional restrictions prohibiting the foreign ownership of coastal property.

In the past 6 years, nearly 100 property dispute cases involving U.S. citizens have been registered with the U.S. Embassy. Some of these cases have been resolved, while others are at various levels of settlement within the Honduran judicial/legal system, some dating back many years. The Embassy is involved in helping resolve the pending cases. It is recommended that Americans interested in purchasing property obtain the services of a reputable real estate agent and consult a competent, reliable Honduran attorney.

Protection of Intellectual Property Rights (IPR) is handled by the Ministry of Industry and Trade. In 1994, following the passage in 1993 of modern IPR legislation by the Honduran Congress, the Ministry set up an office to handle the registration of patents, trademarks and copyrights, as well as any complaints regarding their infringement.

In 1998, Honduras was placed on the 'Watch List' category of the U.S. Government's annual Special 301 Review. A report prepared by the International Intellectual Property Alliance (IIPA) estimates that copyright infringements in Honduras cost U.S. firms US\$ 8.3 million in 1997. There is a widespread piracy of many forms of copyrighted works -- movies, sound recordings, software. The illegitimate registration of well-known trademarks has also been a problem. Honduras saw a portion of its trade preferences under the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) suspended on April 20, 1998 because of its failure to control broadcast television piracy. However, these benefits were restored on June 30, 1998 following governmental action to suspend and fine the offending stations.

In December 1998, the government reaffirmed its commitment to comply with the Trade Related aspects of Intellectual Property Rights (TRIPS) Agreement by the January 1, 2000 deadline. The U.S. and Honduras initialed a bilateral IPR agreement in March 1999, and signing is expected to take place during the course of the year.

The piracy of books, sound, and video recordings, compact discs, computer software and television programs is widespread in Honduras. Despite some progress, copyright protection remains problematic. A TRIPS-compliant reformed copyright law should be presented to Congress in 1999.

The patent law enacted in September 1993, provides patent protection for pharmaceuticals, although the term of seventeen years from the date of application must be extended by at least three years to meet international standards. Honduran law contains overly broad compulsory licensing provisions and provides no protection for products in the pipeline. A TRIPS-

compliant Central American patent and trademark treaty is pending before Congress.

The illegitimate registration of well-known trademarks is a persistent problem in Honduras, in spite of the 1993 modifications to the trademark law.

#### **D. Foreign Trade Zones/Free Ports**

A company, either local or foreign, that locates in one of these specially designated areas enjoys the following benefits:

- Duty-free import of machinery, equipment, fixtures, parts, raw materials and supplies needed for operations (except vehicles).
- Exemption from all income, export, sales, or consumer taxes.
- Unrestricted repatriation of profits and capital, and on-site customs facilities.

The principal free trade zone (FTZ) in Honduras is located in Puerto Cortes and is operated by the Government of Honduras through the National Port Authority. However, in 1998, the government extended FTZ benefits to the entire country. Privately-owned free trade zones are legal extensions of the free trade zones. In terms of operations and incentives, they are identical to the privately operated industrial parks. In addition, individual companies may obtain the benefits of free trade zone status if they are located in specially designated areas.

There are 17 industrial parks currently operating in the country and the number is expected to grow in the coming years. In addition to the incentives listed above, a company that locates in one of these parks can benefit from management services offered by the operators. These parks and zones are treated as if they were offshore operations; therefore, if products manufactured in them are sold in Honduras, customs duties must be paid on them, and, if Honduran raw materials are used to produce the products, these materials are treated as exports and must be paid for in dollars. Ninety percent of the companies that operate in these parks are involved in apparel assembly; however, park operators are seeking to attract other types of light industry, such as footwear, automotive parts, electronics assembly and data processing services.

Privately-owned Tourism Free Zones (ZOLT) may be established to promote the tourism industry development in Honduras. Its law allows the free importation of equipment, supplies, and vehicles to the exclusive benefit of the ZOLT.

#### **E. Foreign Direct Investment Statistics**

Reliable foreign direct investment figures in Honduras are unavailable. However, preliminary figures obtained from Central Bank sources have estimated non-maquila foreign direct investment during 1998 to be US\$ 99 million. The manufacturing industry (excluding maquila) registered US\$ 43.8 million and the tourism industry registered US\$ 26.7 million.

The following table provides a rough estimate of the stock of foreign investment in Honduras by country of origin. Most of the data below have been obtained directly from the firms themselves or through publicly available documents.

| <b>COUNTRY OF<br/>ORIGIN</b> | <b>ESTIMATED DIRECT<br/>INVESTMENT<br/>(IN MILLIONS OF DOLLARS)</b> |
|------------------------------|---|
| United States                | 750.0   |
| Japan                        | 40.0  |
| El Salvador                  | 60.0  |
| Korea                        | 45.0  |
| Hong Kong                    | 30.0  |
| Taiwan                       | 30.0  |
| Spain                        | 10.0  |
| United Kingdom               | 12.0  |
| Germany                      | 5.0   |
| Guatemala                    | 8.0   |
| Venezuela                    | 5.0   |
| Costa Rica                   | 5.0   |
| Mexico                       | 10.0  |
| Other                        | 30.0  |
| <b>Total</b>                 | <b>1,040.0</b>  |

There are no records kept on Honduran investments abroad.

#### **APPAREL INVESTMENT IN HONDURAS**

| <b>Origin</b>                       | <b>No. of Companies</b> |
|-------------------------------------|-------------------------|
| American                            | 75                      |
| Asian                               | 50                      |
| Honduran                            | 67                      |
| Other<br>(including joint ventures) | 11                      |
| <b>Total</b>                        | <b>203</b>              |

Textiles and apparel production continue to be a growing industry in Honduras. Honduras now ranks fifth in the world in apparel export production, second among CBI countries, and first in Central America. According to the Honduran Apparel Manufacturing Association, investment - both foreign and national -- in the

apparel industry in 1998 amounted to US\$ 1.05 billion. Of this amount, US\$ 536.1 million represents foreign investment. It is estimated that total U.S. investment in this sector in 1998 is about US\$ 350 million. Mixed Honduran-U.S. investment represents about ten percent, with approximately US\$ 105 million.

**List of U.S. Companies in apparel industry:**

807 Industries (CMT Blues)  
ABBA Apparel  
Agencia Sunbrand  
AKH  
Anvil Knitwear  
Avent Inc.  
Best From Foundation Inc.  
Buster Brown Apparel Inc.  
Champion Jogbra Inc.  
Character Foundation  
CMT Blues  
Delta Apparel  
EGSA  
Fivaro  
Fruit of the Loom  
Garan de Honduras  
Gator of Florida  
General Sportwear Group  
G-Tees Apparel Group  
Hamlet Manufacturing  
Honduras Manufacturing  
Hugger Inc.  
Industrias Lanier  
Ithaca Industries  
J.E. Morgan Knitting Mills  
Jerzees de Honduras  
JFC Industries  
Jockey International  
Karim's Fashion  
Kelwood Co.  
Kleinerts of Florida Inc.  
KWC de Honduras  
Land Apparel  
LAVATEX Finishing  
LCA Intimates Co.  
Levi Strauss  
M. Fine & Sons Manufacturing Co.  
Manufacturera Ceibena  
Maurice Silvera Inc.  
N.Y. Knitwear  
Nazareth Century Mills  
New Holland Lingerie  
Olga de Villanueva  
Osh Kosh B'Gosh  
Paraiso

Perry Manufacturing Co.  
 Phillips Van Heusen  
 Pieces, Inc.  
 Pindu Ltd.  
 Productos Textiles S.A. (PROTEXSA)  
 QR Fashion  
 Res Kap Industries Inc.  
 Renfro Corporation  
 Russell Corp.  
 S&S Manufacturing  
 Sara Lee Corp.  
 SETISA  
 Silver Cortes  
 SIS Distribution Center  
 Skip Cutting, Inc.  
 Soigne International  
 Southern Gloves  
 Southern Textile Knitters  
 Spencer's de Honduras  
 T'S Treasure  
 The Hardwood Co. Inc.  
 Tropic Wear  
 True Form de Honduras  
 Unitog Co.  
 Universal Overall Co.  
 Valdor, Inc.  
 Warner's/Warnaco Inc.  
 Williamson Dickie Manufacturing Co.  
 Wrangler  
 Wundies USA  
 Zarina Industries

**F. Major Foreign Direct Investments.** The following is a partial list of foreign firms operating in Honduras, with a description of the type of investment and country of origin.

| INVESTOR                    | COUNTRY | TYPE OF INVESTMENT |
|-----------------------------|---------|--------------------|
| Alpha-Graphics              | U.S.    | Printing services  |
| Alberti Food Co.            | U.S.    | Food products      |
| American Airlines           | U.S.    | Air services       |
| America's Favorite Chicken  | U.S.    | Fast food          |
| American Home Assurance Co. | U.S.    | Insurance services |
| Americatel                  | U.S.    | Telecommunications |
| Antonino's Pizza            | U.S.    | Fast food          |



|                               |          |   |
|-------------------------------|----------|---|
| Applewoods                    | U.K.     | Cosmetics   |
| AppleBee's                    | U.S.     | Restaurant  |
| Astaldi, s.p.a.W.A.           | ITA      | Engineering services  |
| Azucarera "La Grecia"         | Guat.    | Sugar mill  |
| BAT Industries PLC            | U.K.     | Tobacco products  |
| Bay Island Fish Co.           | U.S.     | Seafood   |
| Bayer                         | GER      | Pharmaceutical products   |
| Benneton                      | ITA      | Casual clothing   |
| Best Western Hotel            | U.S.     | Hotel   |
| Breakwater Resources Corp.    | CAN/U.S. | Mining  |
| Burger King Inc.              | U.K.     | Fast food   |
| Cargill, Inc.                 | U.S.     | Animal feed, poultry & meat processing                                  |
| Castle & Cooke, Inc.          | U.S.     | Bananas and other agricultural products; Bottling and brewing           |
| Chestnut Hill Farms           | U.S.     | Agricultural products   |
| Chiquita Brands International | U.S.     | Bananas and other agricultural products; plastic products manufacturing |
| Church's Chicken              | U.S.     | Fast food   |
| Cinemark                      | U.S.     | Entertainment   |
| Citibank                      | U.S.     | Banking and financial services  |
| Citrus Development Corp.      | U.S.     | Citrus production and processing  |
| Colgate-Palmolive             | U.S.     | Personal care product   |
| Congelados Holanda            | MEX      | Ice cream   |

|  |                  |  |
|--|------------------|--|
| Continental Airlines                   | U.S.             | Air services                               |
| CPC International                      | U.S.             | Corn starch                                |
| Crowley American Transport             | U.S.<br>services | Ocean freight                              |
| Crowne Plaza Hotel                     | U.S.             | Hotel services                             |
| Cultivos Marinos                       | U.S.             | Shrimp farm                                |
| Cybex                                  | U.S.             | Health & fitness                           |
| Demahsa                                | MEX              | Corn flour                                 |
| DHL                                    | U.S.             | Air freight services                       |
| Domino's Pizza                         | U.S.             | Fast food                                  |
| Dos Pinos                              | C.R.             | Ice cream and milk<br>products             |
| Dry Cleaning USA                       | U.S.             | Dry cleaning services                      |
| Elektra                                | MEX              | Household<br>goods/appliances              |
| Ernst & Young International            | U.S.             | Accounting & auditing<br>Services          |
| Exxon                                  | U.S.             | Petroleum products<br>marketing            |
| Federal Express                        | U.S.             | Air freight services                       |
| Gold's Gym                             | U.S.             | Health & fitness                           |
| Grupo Granjas Marinas                  | U.S.             | Shrimp farms                               |
| Holiday Inn Hotel                      | U.S.             | Hotel                                      |
| Hotel Intercontinental/<br>Camino Real | E.S.             | Hotel                                      |
| H.B. Fuller                            | U.S.             | Adhesives and paints                       |
| Hotel Princess                         | GUA              | Hotel                                      |
| IBM                                    | U.S.             | Business machines and<br>computer software |
| Kimberly-Clark                         | U.S.             | Paper products;                            |

|                            |      |  |
|----------------------------|------|--|
| products                   |      | pharmaceutical   |
| La Costeña                 | MEX  | Canned foods   |
| Little Caesar's Pizza      | U.S. | Fast food  |
| Lloyd's Bank PLC           | U.K. | Banking services                                       |
| Lucent Technologies        | U.S. | Telecommunications                                     |
| Martinizing                | U.S. | Dry cleaning services                                  |
| McDonald's                 | U.S. | Fast food  |
| McCann Erickson            | U.S. | Advertising/publicity                                  |
| Midas International        | U.S. | Automotive parts & Services                            |
| Motorola                   | U.S. | Telecommunications                                     |
| Nestle Products            | SWIT | Food products  |
| Pan Bimbo                  | MEX  | Bread products   |
| Pan American Life Ins. Co. | U.S. | Life insurance   |
| Parker Tobacco             | U.S. | Cigars   |
| Paysen                     | GER  | Pharmaceutical products                                |
| Peat, Marwick, & Mitchell  | U.S. | Accounting and auditing services                       |
| Phelps-Dodge               | U.S. | Electric wire & cable Manufacturing                    |
| Pizza Hut International    | U.S. | Fast food  |
| Pollo Campero              | GUA. | Animal feed; poultry processing; fast food restaurants |
| Poma Group                 | E.S. | Hotel/Mall   |
| Price Smart                | U.S. | Wholesaler   |
| Price Waterhouse           | U.S. | Accounting & auditing services                         |
| RJR-Nabisco                | U.S. | Food products  |

|                                   |      |   |
|-----------------------------------|------|---|
| Ruby Tuesday's                    | U.S. | Restaurant  |
| Sabritas                          | MEX  | Snacks  |
| Scott Paper, Inc.                 | U.S. | Paper products  |
| Seaboard Marine Corp.             | U.S. | Winter fruits &<br>vegetables;<br>aquaculture;<br>ocean freight<br>services |
| Select                            | U.K. | Convenience store   |
| Shell                             | U.K. | Petroleum products<br>marketing   |
| Siemens                           | GER  | Telecommunications  |
| Smith-Kline Beecham               | U.K. | Pharmaceutical  |
| Sprint                            | U.S. | Telecommunications<br>products  |
| Star Mart                         | U.S. | Convenience store   |
| Stewart & Stevenson               | U.S. | Electricity<br>generation   |
| Subway                            | U.S. | Fast food   |
| TAHSA                             | U.K. | Tobacco   |
| TACA                              | E.S. | Air services  |
| TCBY                              | U.S. | Fast food   |
| Technology Research Corp.         | U.S. | Electrical supplies   |
| Texaco                            | U.S. | Petroleum products<br>Marketing   |
| TGI Friday's                      | U.S. | Restaurant  |
| The House of Windsor              | U.S. | Tobacco   |
| 3M                                | U.S. | Office supplies   |
| Truly International               | U.S. | Pest control  |
| United Technologies<br>Automotive | U.S. | Automobile  |

|                       |      |                                      |
|-----------------------|------|--------------------------------------|
|                       |      | electronics<br>assembly              |
| U.S. Tobacco          | U.S. | Cigars                               |
| Van Ommeren-Ceteco    | NETH | Trading/retailing                    |
| Wendy's International | U.S. | Fast food                            |
| Xerox Corp.           | U.S. | Business machine sales<br>& services |

#### **G. Performance Requirements/Incentives**

With the 1997 reform of the Temporary Import Law, benefiting exporters are now allowed to export their products to other Central American countries. Other incentives of this law include duty-free introduction of equipment and materials and a ten-year income tax holiday.

Export processing zones (EPZ), must generate at least 5,000 new permanent jobs within five years after start up. In addition, firms that operate under this regime must comply with all Honduran labor and social security laws. While firms that operate in these zones pay no income taxes and enjoy free repatriation of profits, they are now required to purchase the lempiras needed for their local operations from Honduran commercial banks or from foreign exchange trading houses registered with the Central Bank. In the past, they were allowed to obtain those funds on the open market.

#### **H. Transparency of the Regulatory System**

Most Honduran laws dealing with business, trade, and labor are outdated. The country lacks a basic/indexed legal code; laws are published in periodically circulated gazettes that lawyers and judges must maintain and index on their own. The Government of Honduras often lacks the resources to implement or enforce laws already on the books (or, more accurately, in the gazettes.) Property registration often is not up to date, nor can the results of title searches be relied upon. There is no title insurance in Honduras. Procedural red tape to obtain government approval is still very common.

Nonetheless, progress has been made. The passage of the Investment Law in May 1992 is one of the best examples. As a result of this law, the Ministry of Industry and Trade created a one-stop export and investment registration window to deal with procedures related to the registration of exports and investment in the country. Unfortunately, this office is under staffed and funded.

## **I. Corruption**

There are two primary codes that regulate justice and provide for penalties against corruption: the Criminal Procedures Code (CPC) and the Penal Code (PC). The PC was recently updated, but has been under review in 1997 due to complaints from various sectors of society. The CPC was written in 1984. and has serious flaws. In recognition of these flaws, a new CPC was drafted by the Supreme Court with the help of a team of international jurists and Public Ministry advisors, supported by USAID grant funds and technical assistance. It was submitted to the Honduran Congress in April 1995 and is a priority on the congressional agenda.

One major goal of the draft CPC is to change the discredited inquisitorial system to one which is like the U.S. system -- adversarial, oral and public. Once in effect, the new CPC should improve justice and accountability in a number of ways, including highlighting incidents of government corruption through increased transparency in the criminal process.

In May 1998, Honduras ratified the Inter-American Anti-Corruption Convention, adopted and opened for signature at the Specialized Conference of the Organization of American States (OAS).

Historically, U.S. firms and private citizens have found corruption to be a problem and a constraint to foreign direct investment. Corruption appears to be most pervasive in government procurement and in the buying and selling of real estate (land titling). With considerable U.S. help, the Government is improving Honduras' archaic judicial system and reducing elite immunity and corruption, though serious problems remain in these areas.

Bribery is a criminal act and, depending on the degree of the offense, is subject to fines or incarceration. A bribe to a foreign official is also a criminal act under U.S. law (Foreign Corrupt Practices Act).

The main responsibility for fighting corruption lies with the Public Ministry, under the direction of the Attorney General (Fiscal General). Other government institutions charged with combating corruption include the Comptroller General's Office, the Office of Public Probity, the Solicitor General's Office (Procurador General de la Republica - representing the government) and the Supreme Court's Inspector General's Office of Tribunals. In the past few years, there has been a dramatic increase in the number of cases involving corruption adjudicated by the courts.

## **J. Labor**

Honduras has a significant availability of labor for industries with a demand for low skilled workers, given the low level of

education of a significant portion of its population. There is a shortage of skilled workers in all technological fields dependent on computer skills, as well as in medical and high technology industries.

Union officials remain critical of what they perceive as inadequate enforcement by the Ministry of Labor (MOL) of workers' rights, particularly the right to form a union. In November 1995, the MOL signed a Memorandum of Understanding with the U.S. Trade Representative's Office to implement 11 recommendations for enforcement of the Honduran Labor Code and the resolution of disputes. The MOL has made positive changes implementing several of these recommendations, particularly as they relate to inspection and monitoring of maquilas. Through cooperation within the Tripartite Commission (unions, MOL, Maquiladora Association), the number of unannounced and repeat visits of the maquilas by inspectors from the MOL has increased, improving the MOL's effectiveness in enforcing worker rights and child labor laws.

Since May 1996, the number of strikes and work stoppages in manufacturing plants in Honduras has dropped by more than one-third, most notably in the maquiladora industry. The Honduran Maquiladora Association sponsored several meetings between its membership and major labor organizations, culminating in the signing in July of 1998 a code of conduct for the Maquiladora Association and its constituent companies. As a result, tensions continue to decline and enforcement of the labor code by the Ministry of Labor (MOL) has shown significant improvements, particularly the increase frequency of unannounced inspections in maquila plants.

The law prescribes a maximum 8-hour work day and 44-hour week. There is a requirement for at least one 24-hour rest period every week. The Labor Code provides for a paid vacation of 10 work days after one year and 20 work days after four years. The Constitution and Labor Code prohibit the employment of persons under the age of 16, except that a person of 15 years may be permitted to work with the written permission of parents and the MOL.

The Children's Code (September 10, 1996) prohibits a person of 14 years of age or less from working, even with parental permission, and establishes prison sentences of 3 to 5 years for individuals who allow children to work illegally. An employer who legally hires a 15 year-old must certify that the young person has finished or is finishing compulsory schooling. The MOL grants a number of work permits to 15-year-olds each year. It is common, however, for younger children to purchase forged permits that use the MOL's letterhead.

#### **K. Efficient Capital Markets & Portfolio Investment**

There are no government restrictions on foreign investors' access to local credit markets. However, the local banking system is conservative and generally has limited credit. High legal reserve requirements on commercial bank deposits, presently 25

percent, while decreasing the risk of bank insolvencies, also restrict the availability of credit. Consequently, local banks should not be considered a significant source of start-up capital for new foreign ventures, unless they use specific business development credit lines made available by bilateral or multilateral financial institutions, such as the Central American Bank for Economic Integration. Otherwise, loans from banks tend to be short-term (one year or less), with substantial collateral and/or guarantee requirements.

There is a limited number of credit instruments available in the local market. Two stock exchanges operate in the country: the Honduran Stock Exchange (BHV), in San Pedro Sula and the Central American Stock Exchange, in Tegucigalpa. Both stock exchanges are supervised by the Central Bank of Honduras. The instruments that are traded in these exchanges include bankers acceptances, repossession agreements, short-term promissory notes, and Government of Honduras private debt conversion bonds and land reform repayment bonds.

While, in theory, any private business is eligible to trade in the stock exchanges, firms that participate in them are subject to a rigorous screening process. In addition, they generally have economic ties to the different business/financial groups represented as either shareholders of the stock exchanges or exchange trading houses.

The Honduran Commercial Code is the main legislation that regulates the operations of businesses in the country. This code, however, is almost 50 years old, and local lawyers often argue that much of it needs to be updated to bring it in line with current business trends. A general revision of this Code is pending before the Honduran Congress. The application of the Commercial Code and its regulations fall under the jurisdiction of the Honduran civil court system.

There is no regulatory body for the accounting profession in Honduras. The Association of Public Accountants, however, is responsible for certifying practicing professionals. In general, Honduran businesses adhere to international Generally Accepted Accounting Principles (GAAP). These principles are normally applied following guidelines from the Ministry of Finance's General Directorate for Taxation.

As of December 1998, the country's commercial banks held an estimated \$ 3 billion in total assets. About 7 percent of the total asset base of all banks is classified as non-performing.

The Honduran Association of Banking Institutions (AHIBA) figures total losses to the banking system due to Hurricane Mitch at US\$ 58.4 million. This represents about 4 percent of the total loan portfolio, equivalent to 18 months of profits. AHIBA believes the banking system can handle the loss as long as fresh credit



comes from abroad. The Central American Economic Integration Bank (CABEI) has created a fund to capitalize Central American banks and hopes to get contributions of US\$ 100 million. Like other sectors, the banking system has been dealt a heavy blow and will need fresh resources to weather the storm and loan out money to reactivate the economy.

The Honduran financial system is made up of 23 banks, most of which are associated with powerful economic groups. Most of these banks lend primarily to businesses owned by the economic group of which they are a part. The system has been criticized for permitting excessive amounts of unsecured lending to major stockholders or bank principals. The Central Bank and the National Banking and Insurance Commission are currently working with several international institutions to improve bank supervision.

A new financial system law was passed in 1995. It restricts lending to stockholders and bank officers, permits more control by the Superintendent of Banks over the financial system and favors increased financing for industrial reconversion.

Public ownership of business is almost non-existent in Honduras. The largest corporations in the country are owned by small groups of families. Admission of new stockholders to the firms must first be approved by the existing shareholders, since the commercial code allows a company's incorporation charter to indicate how new owners will be admitted. Likewise, any mergers or acquisitions must also be approved following the same procedure.

In general, there are no specific practices by local firms or government to restrict foreign investment participation in economic activities besides those specified in the Investment Law of 1992.

#### **L. Conversion and Transfer Policies**

The 1992 Investment Law guarantees foreign investors access to foreign currency needed to transfer funds associated with their investments in Honduras. This includes:

- Imports of goods and services necessary to operate.
- Payment of royalty fees, rents, annuities and technical assistance.
- Remittance of dividends and capital repatriation.

The Central Bank established an auction system to regulate the allocation of foreign exchange more tightly. According to auction system regulations, dollar purchases are conducted at 5 to 7 percent above or below the base price established every 5

days. During recent auctions, the Central Bank has been adjudicating an average of US\$ 8 million daily. All individuals, foreign or national, can participate in auction system dollar purchases. Foreign exchange demand in 1998 was 96.1 percent covered.

#### **M. Expropriation and Compensation**

The Embassy is aware of seven cases involving possible expropriation claims by U.S. citizens. All involve the Honduran National Agrarian Institute (INA), are complex in nature, long-standing and involve invasions by squatters. The Government of Honduras clearly accepts its responsibilities with respect to indemnifying property owners; however, timely compensation was not received in one of these cases, and only came about through Embassy intervention.

#### **N. Dispute Settlement**

The Honduran legal system is slow and generally unsatisfactory. U.S. investors are strongly encouraged to hire competent Honduran legal counsel before taking any significant steps toward investing or otherwise doing business in Honduras. When entering into contracts, investors may wish to discuss with their lawyer the possibility of including language providing for arbitration or other forms of alternative dispute resolution. Honduras is a member of the International Center for the Settlement of Investment Disputes (ICSID). The Honduran Congress is expected to pass this year a new criminal procedures code. It will change the Honduran judicial system from a written inquisitorial system to a more open and transparent oral-adversarial system, similar to that in the United States. The United States Agency for International Development (USAID) and other organizations are providing technical support for the change.

#### **O. Political Violence**

Although violent crime is common in Honduras, politically motivated violence remains rare. In recent years, there were grenade and drive-by shooting attacks at government buildings and private businesses, but this type of violence has subsided. It is expected that the newly civilianized and reorganized police will be better trained and equipped. If such incidents recur, there will be a more capable police force better able to conduct investigations leading to arrests and convictions.

Peaceful protests are common in Honduras, but violent clashes between protesters and police are rare. On numerous recent occasions, the police have stood by and watched as protesters conducted peaceful demonstrations. In another recent example, workers peacefully took over a roadway in northern Honduras, but the police, with the help of the military, were able to bring the road closure to a peaceful conclusion.

There are no nascent insurrections in Honduras. Relations between Honduras and its neighbors are good, with the nations of Central America increasingly engaged in a process of integration, especially in the economic realm. Border frictions are confined mostly to occasional incidents involving fishing boats or loggers said to be poaching respectively in the waters or on the land of a neighboring country. Nicaragua and Honduras have seized each other's fishing boats on numerous occasions, but the boats are generally returned promptly with a waiver of the payment of fines.

#### **P. Bilateral Investment Agreements**

The U.S. - Honduras Treaty of Friendship, Commerce and Consular Rights (1928) provides for Most Favored Nation treatment for investors of either country. The U.S. and Honduras also signed an agreement for the guarantee of private investments in 1955 and an agreement on investment guarantees in 1966. An Exchange of Tax Information Agreement was signed with the U.S. in 1992. On July 1, 1995 Honduras and the U.S. signed the Bilateral Investment Treaty (BIT) at the Hemispheric Trade Ministerial in Denver, Colorado. This treaty has been ratified by the Honduran Congress; ratification by the U.S. Senate is still pending.

Provisions for bilateral investment are included in the commercial treaties Honduras has signed with Costa Rica, El Salvador, Guatemala, Panama, and the Dominican Republic. In addition, Honduras, Guatemala and El Salvador (the Northern Triangle), are in the final process of negotiating a free trade agreement with Mexico. The agreement is expected to include investment provisions. In 1993 Honduras signed bilateral investment agreements with Great Britain and Spain, and is in the final stages of completing a free trade agreement with the Dominican Republic. Central American countries are negotiating free trade agreements with Chile and Panama and are exploring negotiations with the Andean Community and Taiwan.

#### **Q. OPIC & Other Investment Insurance Programs**

The U.S. Overseas Private Investment Corporation (OPIC) currently offers financing for U.S. citizens who invest in Honduras, as well as insurance against risks of war and expropriation. The U.S. Mission purchases approximately 8-12 million dollars in lempiras 'offshore' annually to fund administrative and other expenses. The rate is the offshore rate which tracks very closely to the established official rate. Other countries, including Germany, the United Kingdom, Taiwan, Spain, Italy, Switzerland, and Japan provide insurance and guarantees for their companies doing business in Honduras. In addition, Honduras is a party to the World Bank's Multilateral Investment Guarantee Agency (MIGA).

OPIC signed an investment insurance program agreement with Banco de Honduras (Citibank) in February 1999 as part of a US\$ 200 million Central American facility.

## **VIII. TRADE AND PROJECT FINANCING**

### **A. Description of Banking System**

The Honduran banking system has been involved in a drive towards modernization and increased competition. There are currently 23 commercial banks, up from 14 just three years ago. All Honduran banks have correspondent relations with U.S. banks. Most of these banks are associated with powerful economic groups, and lend primarily to businesses owned by the group of which they are a part. The system has been criticized for permitting excessive amounts of unsecured lending to major stockholders or bank principals.

The Financial Sector Reform Law ratified on October 17, 1995, creates a new banking commission to serve as a regulatory agency for the banking system. This law replaces archaic financial legislation dating back to the early 1950's. The new banking law is a modern piece of legislation modeled on the Chilean banking law and recent financial sector reforms adopted in Ecuador and Colombia. The new banking law establishes a modern regulatory framework for the functioning of the banking system. The reforms strengthen monetary policy management by giving the Central Bank authority to impose reserve requirements on savings and loan associations and finance companies, in addition to commercial banks. Overall, the new legislation is a major step toward modernizing financial intermediation in Honduras. However, bank supervision has been poor to date. The international financial institutions are working with the Central Bank and Banking Commission to improve supervision.

The country's twenty-three commercial banks control an estimated \$3 billion in assets.

### **B. Foreign Exchange Controls Affecting Trade**

Until early 1990, Honduras maintained a fixed official exchange rate of 2 lempiras (LPs.) to the U.S. dollar. In March 1990, with the passage of a sweeping economic reform package, the Central Bank of Honduras devalued the lempira vis-a-vis the dollar, and later permitted it to float freely. This system of currency valuation, the interbank rate of exchange, has been used for all purposes, except payment of official debt, which was maintained at the LPS2/USD1 rate. The interbank rate of exchange was initially set at LPS4/USD1, and as of June 98 was LPS.13.32/USD1.

The Foreign Exchange Repatriation Law passed in September 1990, requires all Honduran exporters, except those operating in free-trade zones and export processing zones, to repatriate 100 percent of their export earnings through the commercial banking system. Until recently, commercial banks were allowed to use 70 percent of export earnings to meet their clients' foreign exchange needs. The other 30 percent had to be sold to the Central Bank at the prevailing interbank rate of exchange.

However, in a move to stop the continued devaluation of the lempira against the U.S. Dollar, the Central Bank, in 1994 established an auction system to regulate the allocation of foreign exchange more tightly and improve transparency of foreign exchange transactions. Commercial banks are now required to sell 100 percent of repatriated foreign exchange earnings to the Central Bank -- except for exporters operating in FTZs and EPZ as well as remittances -- which in turn auctions up to 60 percent of them daily in the open market.

#### **C. General Financing Availability**

There is limited short-term trade financing available from local commercial banks. The financing situation is tight because of Central Bank contractionary monetary policies aimed at curbing inflation and stabilizing the value of the lempira against the U.S. dollar. The Central Bank recently lowered the legal reserve requirement on commercial bank deposits to 25 percent on local currency deposits and 50 percent on foreign exchange deposits. Bank interest rates on commercial loans remain high, with nominal rates in the 31 percent range.

#### **D. How to Finance Exports/Methods of Payment**

Cash in advance and irrevocable letters of credit, confirmed by U.S. banks, are the most appropriate methods of payment for U.S. exporters selling to Honduran firms.

#### **E. Types of Available Export Financing & Insurance**

The United States Export-Import Bank (EXIMBANK) offers short and medium term financing for U.S. exports to Honduran private sector buyers. At present, no local bank has direct access to EXIMBANK's credit lines. These lines, however, are available through U.S. commercial banks. EXIMBANK's credit facilities available to Honduras include the Working Capital Guarantee Program, Exporter Insurance Program, Bank Letter of Credit Policies and Financial Institution Facilities. In February 1999, EXIMBANK signed a \$50 million export facilitation facility for Central America with the Central American Bank for Economic Integration (CABEI). Also in February 1999, OPIC and Citibank signed an agreement to establish a \$200 million investment facility for Central America and the Caribbean that will help meet the need for medium and long-term capital in the region.

## **F. Project Financing Available**

Long-term financing is generally available only through special lines of credit that selected commercial banks have with CABEL. The programs that are available from this institution concentrate on export projects, including export processing zones and industrial parks.

The U.S. Department of Agriculture (USDA) provides credit guarantees for a wide range of agricultural and products exported from the United States, as well as export bonuses for selected products under the Export Enhancement Program and the Dairy Export Incentive Program. The USDA financing programs are aimed at encouraging U.S. agricultural exports.

The U.S. Small Business Administration (SBA) provides financial and business development assistance to encourage and help small business develop export markets. SBA offers both loans and loan guarantees.

The U.S. Trade Development Agency (TDA) provides grant loans for pre-feasibility studies overseas on projects with high U.S. products and services export potential.

Assistance from the Overseas Private Investment Corporation (OPIC) is available for new investments, privatizations, and for expansions and modernizations of existing plants sponsored by U.S. investors. The investors must contribute additional capital for modernization and/or expansion to be eligible. Financing is not available for projects that can secure adequate financing from commercial sources.

## **G. List of Commercial Banks with correspondent U.S. Banking Arrangements**

### **Banco El Ahorro Hondureño, S.A.**

Federico Alvarez, President  
P.O. Box 3185  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 237-5161  
Fax: (504) 237-4638  
[Http://www.bancahorro.hn](http://www.bancahorro.hn)  
E-mail: [bancahorro@bancahorro.hn](mailto:bancahorro@bancahorro.hn)

### **Banco Atlantida, S.A.**

Guillermo Bueso, Executive President  
P.O. Box 3164  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-1742, 232-1050  
Fax: (504) 232-7860  
[Http://www.bancatlan.hn](http://www.bancatlan.hn)  
E-mail: [info@bancatlan.hn](mailto:info@bancatlan.hn)

**Banco La Capitalizadora Hondureña, S.A. (BANCAHSA)**

Jorge Alberto Alvarado, President  
P.O. Box 344  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 237-1171  
Fax: (504) 237-2775  
E-mail: [bancahsa@bancahsa.hn](mailto:bancahsa@bancahsa.hn)

**Banco del Comercio, S.A. (BANCOMER)**

Suyapa Córdova, President  
P.O. Box 160  
San Pedro Sula, Cortés, Honduras  
Tel: (504) 553-3600  
Fax: (504) 553-3128  
[Http://www.bancomer.hn](http://www.bancomer.hn)  
E-mail: [rinforma@bancomer.hn](mailto:rinforma@bancomer.hn)  
E-mail: [rinforma@netsy.hn](mailto:rinforma@netsy.hn)

**Banco Continental, S.A.**

Jaime Rosenthal, President  
P.O. Box 390  
San Pedro Sula, Cortés, Honduras  
Tel: (504) 550-0880  
Fax: (504) 550-2750  
E-mail: [fmendoza@continental.hn](mailto:fmendoza@continental.hn)

**Banco Financiera Centroamericana, S.A. (FICENSA)**

Oswaldo López Arellano, President  
P.O. Box 1432  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-1661  
Fax: (504) 238-1630  
[Http://www.ficensa.com](http://www.ficensa.com)  
E-mail: [webmaster@ficensa.com](mailto:webmaster@ficensa.com)

**Banco de las Fuerzas Armadas, S.A. (BANFFAA)**

Roberto Lazarus, President  
P.O. Box 877  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-0164  
Fax: (504) 232-4210  
[Http://www.banffaa.hn](http://www.banffaa.hn)  
E-mail: [banffaa@simon.intertel.hn](mailto:banffaa@simon.intertel.hn)

**Banco Hondureño del Café (BANHCAFE)**

Miguel Fernández, President  
P.O. Box 583  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-8370  
Fax: (504) 232-8332

E-mail: [bcafeinf@hondutel.hn](mailto:bcafeinf@hondutel.hn)

**Banco de Honduras, S.A. (CITIBANK)**

Patricia Ferro, President  
P.O.Box 3434  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-6122  
Fax: (504) 232-6167  
E-mail: [patricia.ferro@citicorp.com](mailto:patricia.ferro@citicorp.com)  
E-mail: [jorge.farach@citicorp.com](mailto:jorge.farach@citicorp.com)

**Lloyd's Bank**

Graham Jones, Manager  
P.O. Box 3136  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 236-6864  
Fax: (504) 236-6417  
E-mail: [lloydsbank@davidintertel.hn](mailto:lloydsbank@davidintertel.hn)

**Banco Mercantil, S.A. (BAMER)**

José Lamas, President  
P.O. Box 116  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 232-0006  
Fax: (504) 232-3137  
E-mail: [bamer@gbm.hn](mailto:bamer@gbm.hn)  
[Http://www.bamernet.hn](http://www.bamernet.hn)

**Banco de Occidente, S.A.**

Jorge Bueso Arias, President  
P.O. Box 3284  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 237-0310  
Fax: (504) 237-0486

**Banco SOGERIN, S.A.**

Edmond Bográn, President  
P.O. Box 440  
San Pedro Sula, Cortés, Honduras  
Tel: (504) 550-0712, 550-3888  
Fax: (504) 550-2001  
E-mail: [soglalc@hondutel.hn](mailto:soglalc@hondutel.hn)

**Banco de los Trabajadores, S.A.**

Rolando del Cid Velásquez, President  
P.O. Box 3246  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-4342, 238-0017  
Fax: (504) 238-0077

**Banco de la Exportación, S.A. (BANEXPO)**

René Morales, President  
P.O. Box 3988



Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-4256  
Fax: (504) 239-4265  
E-mail: [banexpo@netsys.hn](mailto:banexpo@netsys.hn)

**Banco del País, S.A.**

Carlos Sanabria, President  
P.O. Box 1075  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-0460  
Fax: (504) 239-5707, 239-5707

**Banco Corporativo (BANCORP)**

Victor Bendeck, President  
P.O. Box 1075  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-3263  
Fax: (504) 239-3286  
E-mail: [bancorp@netsys.hn](mailto:bancorp@netsys.hn)

**Banco de la Producción (BANPRO)**

Ricardo Maduro, President  
P.O. Box 5151  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-2800  
Fax: (504) 239-2811  
E-mail: [banpro@banprohn2.com](mailto:banpro@banprohn2.com)

**Banco Hondureño de Crédito y Servicios (BANHCRESER)**

Carlos Chahín, President  
P.O. Box 4010  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-3252  
Fax: (504) 239-3259

**Banco Financiera Comercial Hondureña, S.A. (FICOHSA)**

Camilo Atala, President  
P.O. Box 3858  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 239-6410  
Fax: (504) 235-8114  
E-mail: [ficocaaf@ficohsa.hn](mailto:ficocaaf@ficohsa.hn)  
[Http://www.ficohsa.hn](http://www.ficohsa.hn)

**Banco Futuro**

Jaime Chávez, President  
P.O. Box 3325  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 237-4000  
Fax: (504) 237-1835  
E-mail: [cavila@futuro.hn](mailto:cavila@futuro.hn)

**Banco Capital**

Ivis German López, President  
P.O. Box 3815  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-6090  
Fax: (504) 238-6094  
E-mail: [mflores@capital.hn](mailto:mflores@capital.hn)

**Banco Credomatic**

Alberto Galeano, President  
P.O. Box 3725  
Tegucigalpa M.D.C., Honduras  
Tel: (504) 238-7220  
Fax: (504) 237-5113, 237-5222  
E-mail: [mscomh@ns.gbm.hn](mailto:mscomh@ns.gbm.hn)

**IX. BUSINESS TRAVEL****A. Business Customs**

The U.S. is Honduras's main trading partner, and Hondurans generally look upon American citizens as reliable and trustworthy business partners. Hondurans often view written contracts as formalities that represent a verbal agreement between trusted colleagues. The verbal understanding is therefore sometimes given greater importance than the written contract. Personal relationships are frequently more important than in the United States in creating and maintaining business ties and avoiding disputes. Honduran business people frequently seek to build lifetime relationships and establish close links with clients or customers, which creates a reciprocal feeling of obligation and a mutual desire to be helpful.

Hondurans are hospitable and gracious hosts. Generally the consummation of a business deal is closely related to some kind of social activity. As a result, many Americans find that going straight to the point when negotiating with Hondurans is not well received. When meeting with Honduran counterparts it is often best to move into business matters gradually. After the formalities of courtesy have been taken care of, meetings generally turn to a more concrete discussion of business. Negotiations tend to be slower and more drawn out in Honduras than in the U.S. Hondurans place more emphasis on completing human transactions than on holding to schedules.

Traffic in the two largest cities is always a problem, so visitors should allow ample time between appointments. Punctuality is more lax than in the U.S.; waiting is typical. Many U.S. business people pride themselves on timeliness, but schedules are less important in Honduras than in the U.S. Unfortunately, one cannot count on receiving an appointment

without prior notice simply because one has come for one day only or has traveled a great distance. This different approach to scheduling and punctuality should be taken as a cultural difference, not as discourtesy or disinterest.

## **B. Travel Advisory & Visas**

The security situation in Honduras requires caution. Street crime is a principal concern, with thefts, including purse snatchings, pick-pocketing and armed robberies in urban areas on the rise. Armed carjackings have been a problem and there have been incidents of home invasions. Jewelry should not be worn in downtown or isolated areas. All visiting business people are urged to avoid carrying valuables or large sums of money. Any incidents or threatening activity should be reported immediately to the Embassy's security office.

United States citizens must have a passport to enter Honduras. Visas are not required for bearers of U.S. diplomatic, official, or regular passports for tourist or business visits under 30 days. The Honduran Embassy in Washington D.C. and Honduran consulates in several U.S. cities issue visas and answer queries regarding travel to Honduras. No immunizations are required for entry.

### **1. Visas for Investors**

Interested parties must approach the nearest Honduran consulate or the Honduran Embassy in Washington. If already in Honduras, he/she may apply for it with the assistance of a lawyer before the Ministry of Government and Justice.

According to Executive Order No. 8, the following procedures have been developed to facilitate the entrance into Honduras of foreigners who wish to invest in agricultural, agribusiness, industrial, tourism and export projects, in accordance with government promotion and investment policies and the Export Processing Zone Law.

The most important articles of the Migration Law are:

Art. 3: All citizens of countries with which the Government of Honduras has established diplomatic relations are eligible for investors' visas. Others may also be eligible if they are involved in an investment initiative proposed by one of the following local institutions: Honduran Private Enterprise Council (COHEP), Foundation for Investment and Development of Exports (FIDE), National Industry Association (ANDI), and National Chambers of Commerce and Industry.

Art. 4: The classification of the "Visa for Investors" is as follows:

- a) Investor's Type 1 Visa: issued to the investor and dependents
- b) Investor's Type 2 Visa: issued to technicians and specialized workers, their spouses and economic dependents.

Art. 6: The application for the visa must be submitted personally or by a legal representative, and must contain the following specific information:

- a) Complete name of the applicant.
- b) Nationality and permanent residence.
- c) Purpose of the visit.

The following documents must be included in the application:

- a) Current passport.
- b) Bank or Commercial references.
- c) Evidence or proof of investors' intentions.

Art. 8: The bearer of Type 1 visa will be granted a three month visa to remain in the country. This visa may be extended up to a maximum of one year. Those with a Type 2 visa will be authorized an initial period of one month, which can be extended up to a maximum of six months.

Art. 12: Bearers of such visas will be able to receive all the benefits established under the Export Processing Zone Law.

## **2. Residence**

The application for residence must be done outside of Honduras through a Honduran consulate. The residence registration process takes about 3 to 4 months. Among the documents required to apply for Honduran residence are:

- a) Health Certificate (original and copy)
- b) Police Department Certificate (original and copy)
- c) Letter of Employment (original and copy)
- d) Two Pictures

The residence card must be renewed every year.

## **3. Work Permit**

The following procedures are required in order to obtain a work permit in Honduras:

- a) Obtain Honduran residence. While the application for residence is in process, a temporary work permit can be requested through the Ministry of Labor.
- b) Provide the following information to the Ministry of Labor.

- 1) A list of all the company's employees. The nationality of workers must be specified.
- 2) A letter of employment. This letter must describe the type of job or specialized work that the foreign employee will execute.
- 3) Work contract.

### **C. Holidays**

#### **Honduran Holidays (2000)**

| <b>Date</b>  | <b>Day of the Week</b> | <b>Holiday</b>                    |
|--------------|------------------------|-----------------------------------|
| January 1    | Saturday               | New Year's Day                    |
| April 20     | Thursday               | Holy Thursday                     |
| April 21     | Friday                 | Good Friday                       |
| April 22     | Saturday               | Holy Saturday                     |
| May 1        | Monday                 | Honduran Labor Day                |
| September 15 | Friday                 | Central American Independence Day |
| December 25  | Monday                 | Christmas Day                     |

#### **American Federal Holidays (2000)**

| <b>Date</b> | <b>Day of the Week</b> | <b>Holiday</b>                |
|-------------|------------------------|-------------------------------|
| January 1   | Saturday               | New Year's Day                |
| January 17  | Monday                 | Martin Luther King's Birthday |
| February 21 | Monday                 | President's Day               |
| May 29      | Monday                 | Memorial Day                  |
| July 4      | Tuesday                | Independence Day              |
| September 4 | Monday                 | Labor Day                     |
| October 9   | Monday                 | Columbus Day                  |
| November 10 | Friday                 | Veteran's Day                 |
| November 23 | Thursday               | Thanksgiving Day              |
| December 25 | Saturday               | Christmas Day                 |

## **D. Business Infrastructure**

**1. Transportation:** Four international airports serve Tegucigalpa, the commercial center of San Pedro Sula, the coastal city of La Ceiba, and the island of Roatán. The city of San Pedro Sula recently inaugurated a modern international airport. Representing the first stage of a US\$ 20 million project, this air transportation facility is equipped with a high-tech radio control tower, computerized customs, and a comfortable passenger terminal.

Passenger and air freight services are generally reliable. Three gateway cities (Houston, Miami, and New Orleans) are only 2 \_ hours (flying time) from Honduras. Direct flights between Honduras and cities in North and Central America are provided by the following international airlines: American, Continental, COPA, LACSA, NICA, Maya World and TACA. Isleña Airlines also connects Tegucigalpa with the north coast and the Bay Islands. Charter service and aircraft rentals (small single- and twin-engine equipment) are available from private flying services operating out of Tegucigalpa, San Pedro Sula, and La Ceiba.

Taxi service is adequate in downtown areas of Tegucigalpa and San Pedro Sula, but some drivers pick up as many passengers as possible along the way. Taxis can be hard to find in some residential areas. Major hotels and the airport in Tegucigalpa and San Pedro Sula have a fleet of cabs that charge two to three times the normal rates. Taxis are not metered, so negotiate the fare first. Taxi cabs can be hired on a daily or hourly basis. Car rental companies such as Budget and Hertz are also available.

Air travelers leaving Honduras are required to pay a US\$25.00 exit tax.

**2. Language:** Spanish is the official language of Honduras. A large number of Honduran professionals and businessmen speak English and many high government officials and private sector leaders were educated in the United States.

**3. Communications:** Telephone service is adequate. Direct-dial, long-distance calling within Honduras and to the U.S. and several other countries is available but expensive. Costs are based on the destination, and rates are available through operator assistance. Night rates are charged from 10 pm to 7 am daily. Direct-dial calls placed from the continental U.S. to Honduras are considerably cheaper. AT&T credit card holders may also use the less costly "USA-Direct" service. MCI and Sprint have similar services. Multimedia and data transmission services, such as fax, electronic mail, internet, and cellular telephony, are also available in the country.

Local telegraph service is available at a rate of LPS. 0.35 for an ordinary five word message and for LPS.1.00 for an urgent five word message. Additional words would cost LPS. 0.20 per word. International telegraph service to the United States is also available at a rate of LPS.3.36 per word and LPS. 6.72 per word for urgent messages, this rate per word includes name and address. Additionally, telex service is extensively used in Honduras. The telegraphic services charge is subject to a 12% sales tax.

Radio reception is satisfactory. U.S.-style music is featured on several stations, but news is exclusively in Spanish. A good shortwave radio is necessary to receive American stations and international broadcasts including the Voice of America (VOA). The United States Information Service has schedules and program information.

Eight local TV stations can be seen in Honduras, all with Spanish-language programming. Some local companies offer cable service with a wide range of stations, including major U.S. networks, CNN and entertainment-oriented stations.

Six Spanish-language dailies are published in Tegucigalpa and San Pedro Sula. One weekly English-language newspaper is also published in Honduras. Major sources of English-language news are the Latin American air express editions of the Miami Herald, the New York Times, the Wall Street Journal, the Washington Post, and USA Today. They normally arrive the day of, or day after, publication. Overseas editions of Time and Newsweek are available at several news stands or by subscription.

**4. Housing:** Spacious housing and apartment complexes are available throughout good residential areas in the country. Domestic maid services are also available at a relatively low cost. Numerous real estate brokerage firms and agents provide assistance to foreigners seeking local housing.

Arriving visitors can choose from a wide variety of suitable hotel and bed and breakfast accommodations in major cities and tourist areas of Honduras. Among the most popular hotels in Tegucigalpa are the Honduras Maya, Plaza San Martín, Princess, La Ronda, El Prado, and La Alameda. In San Pedro Sula, most business travelers stay at the Camino Real Inter-Continental, Hotel y Club Copantl, Gran Hotel Sula, and Hotel Los Próceres. Hotels construction projects in the country include the Crowne Plaza, Camino Real Inter- Continental, Holiday Inn Express, Princess Hotel, and a chain of Hyatt Hotels in Roatan, among others.

**Hotel Honduras Maya**

Ave. República de Chile, Col. Palmira  
P.O. Box 1856  
Tegucigalpa, Honduras

Tel. (504) 220-5000  
Fax. (504) 220-6000  
Email: hondurasmaya@globalnet.hn

**Hotel Princess**

Col. Alameda Ave. Juan Manuel Galvez, #1521  
P.O. Box 808  
Tegucigalpa, Honduras  
Tel. (504) 220-5088 / 220-4500  
Fax. (504) 220-5087  
Email: princesssteg@datum.hn

**Hotel Plaza San Martín**

Fte. Plaza San Martín, Col. Palmira  
P.O. Box 864  
Tegucigalpa, Honduras  
Tel. (504) 232-2928  
Fax. (504) 231-1366  
Email: hpsmresv@ns.gbm.hn

**Hotel Plaza Libertador**

Fte. Hotel Plaza San Martin  
Plaza San Martin  
Tegucigalpa, Honduras  
P.O. Box 3983  
Tel. (504) 220-4141  
Fax. (504) 222-4242  
Email: libertad@netsys.hn

**Hostal Las Lomas**

Col. Lomas del Guijarro, costado norte de FIDE  
Tegucigalpa, Honduras  
P.O. BOX 3319  
Tel. (504) 232-0477 / 235-6844 / 235-6845  
Fax. (504) 232-3344  
Email: hlaslomas@david.intertel.hn

**Hotel y Club Copantl**

Col. Los Arcos, Blvd. del Sur  
P.O. BOX 1060  
San Pedro Sula, Cortés  
Tel. (504) 556-8900 / 556-6412  
Fax. (504) 556-7890  
Email: copantl2@copantl.hn

**Hotel Camino Real Inter Continental**

Centro Comercial Multiplaza 7 ave., 12 cll-A, SO  
San Pedro Sula, Cortés  
Tel. (504) 553-0000  
Fax. (504) 550-6255  
Email: sanpedrosula@interconti.com

**Hotel Los Próceres**



17-18 Ave., 2 cll. Bo. Rio de Piedras  
San Pedro Sula, Cortés  
Tel. (504) 557-4457 / 550-3636  
Fax (504) 555-3620  
Email: [proceres@netsys.hn](mailto:proceres@netsys.hn)  
<http://www.losproceres.com>

**Hotel Princess**

10 Calle Ave. Circunvalación, S.O.  
San Pedro Sula, Cortes  
P.O. Box 4861  
Tel. (504) 556-9600  
Fax. (504) 550-9595  
Email: [hotelprincess@globalnet.hn](mailto:hotelprincess@globalnet.hn)

**5. Climate and clothing:** A distinctive characteristic of Honduras is the diversity in weather and topography. The northern part of the country is basically hot and humid the whole year. The mountainous zone in central Honduras is dryer and cooler. There are two seasons in Honduras: the rainy season from June to November and the dry season from December to May. Heavy showers fall once or twice a day during the peak of the rainy season. March and April are particularly hot and dry, with considerable smoke in the air from slash-and-burn agriculture.

Summer clothing is suitable year-round in Tegucigalpa. Tegucigalpa's weather is tropical by day and somewhat cooler in the early morning and evening. From mid-November to February it may be cooler during the day. At this time lightweight wools and long sleeves may be worn.

**6. Food:** A wide selection of restaurants offer continental, oriental, and American cuisine, as well as local specialities. Visitors should eat in hotels or in any modern restaurant. Pizza franchises and local pizza restaurants have delivery service. Supermarkets and shopping malls are conveniently located, and carry a variety of products similar to those sold in the United States.

**7. Health:** Drinking water must be boiled and filtered and often is in short supply during the dry season. Purified water can be purchased in major cities and most smaller towns. Fruits and vegetables must be cleaned carefully and meats cooked well. The main health hazards include AIDS, malaria, dengue fever, dysentery, parasites, hepatitis A and B, typhoid, and rabies. There have been reports of cholera as well, although not in epidemic proportions. A malaria suppressant should be taken if traveling to coastal regions or rural areas for extended overnight stays. Heat and sun exposure are also hazards. Take care to use sunscreen and avoid dehydration. Essential medical care service is available in Tegucigalpa, San Pedro Sula, La Ceiba and Choluteca, but medical centers in the countryside are limited and in some places inaccessible.

"Foreign Service Posts: Guide for Business Representatives" available for sale by the Superintendent of Documents, U.S., Government Printing Office, Washington, D.C. 20402; Tel(202)512-1800; fax(202)512-2250. Business travelers to Honduras seeking appointments with U.S. Embassy Tegucigalpa officials should contact the Commercial Section in advance by telephone at (504)238-5114, or by fax(504)238-2888.

## **X. ECONOMIC AND TRADE STATISTICS**

### **APPENDIX A. Country Profile**

1998 Population (millions): 6.1

1998 Population Growth (Percent): 2.8

Religion: Roman Catholic: 97 percent  
Protestant : 3 percent

Government System: Democratic Republic

Language: Spanish (Official)

Work Week: Government 40 hours  
Private Sector 44 hours

### **APPENDIX B. Domestic Economy (Statistics provided by the Honduran Central Bank and other official sources)**

|  | <b>1997</b> | <b>1998</b> | <b>1999/1</b> |
|--|-------------|-------------|---------------|
| Nominal GDP(U.S.Dollar Millions)             | 4,386       | 5,135       | 4,825         |
| Real GDP growth rate (pct. chg.)             | 4.5         | 3.0         | (3.0)         |
| Per capita GDP                               | 808         | 880         | 791           |
| Central Government Spending<br>as pct of GDP | 20.0        | 16.9        | N/A           |
| Inflation/2                                  | 12.8        | 15.7        | 12-13.0       |
|  | <b>1996</b> | <b>1997</b> | <b>1998/1</b> |
| Central Government Deficit<br>(pct. GDP)     | 3.0         | 3.3         | 6.3           |

|   |       |       |       |
|---|-------|-------|-------|
| Unemployment (pct.)/3   | 6.3   | 6.3   | 12.0  |
| Foreign Exchange Reserves<br>(Central Bank) (USD millions)<br>(April) | 491.5 | 659.8 | 719.0 |
| Average exchange rate for<br>USD 1.00<br>(July)                       | 13.09 | 13.81 | 14.43 |
| Debt Service Ratio<br>(Services/Exports) (PCT)                        | 16.6  | 15.0  | N/A   |
| USD Economic Assistance<br>(USD millions)                             | 36.1  | 44.3  | 103.4 |

#### **APPENDIX C. Trade (USD millions)**

|  |         |         |         |
|--|---------|---------|---------|
| Total Honduran Exports<br>(Good & Services)  | 2,212.3 | 2,446.1 | 2,300.0 |
| Total Honduran<br>Imports (Goods & Services) | 2,706.7 | 3,030.7 | 3,445.7 |
| U.S. Merchandise Exports<br>to Honduras /4   | 1,033.0 | 1,165.8 | N/A     |
| U.S. Merchandise Imports from<br>Honduras /4 | 613.6   | 590.7   | N/A     |

Note:

1/ Economic data are based upon Honduran Central Bank figures.  
1999 figures are estimates.

2/ Annual cumulative inflation rate.

3/ Open unemployment is low; however, underemployment approaches 27%.

4/ Honduran and U.S. Trade figures vary widely due primarily to methodological differences in the way U.S. and Honduran agencies count the "Maquila" trade as well as an undervaluation of imports and exports in official Honduran statistics. The U.S. export and import figures are based on Honduran Central Bank data. U.S. data "double counts" the maquila trade.

#### **APPENDIX D. Investment Statistics**

See Section F) of Investment Climate Statement

## **XI. U.S. AND COUNTRY CONTACTS**

### **A. Honduran Government Agencies**

#### **Presidential Palace**

Carlos Roberto Flores, President of the Republic of Honduras  
Palacio José Cecilio del Valle  
Blvd. Juan Pablo II  
Tegucigalpa, M.D.C.  
Tel. (504) 221-4545  
Fax. (504) 235-6949

#### **Central Bank of Honduras**

Victoria Asfura de Diaz, President  
Edif. Banco Central  
Tegucigalpa, M.D.C.  
Tel: (504) 237-1668, 237-1677  
Fax: (504) 237-6261

#### **Ministry of Industries and Trade**

Reginaldo Panting, Minister  
Edif. Larach, 6 Piso  
Tegucigalpa, M.D.C.  
Tel: (504) 238-2025, 237-1947  
Fax: (504) 237-2836

#### **Ministry of Finance**

Gabriela Nuñez de Reyes, Minister  
Palacio de Hacienda  
3a. Calle  
Tegucigalpa, M.D.C.  
Tel: (504) 222-8701, 222-2211  
Fax: (504) 238-2309

#### **Ministry of Foreign Affairs**

Roberto Flores Bermúdez, Minister  
Antigua Casa Presidencial, \_ cuadra al norte  
de la Corte Suprema de Justicia  
Tegucigalpa, M.D.C.  
Tel: (504) 234-3297  
Fax: (504) 234-1484

#### **Ministry of Public Works, Transportation and Housing**

Tomás Lozano, Minister  
Bo. La Bolsa  
Comayaguela, M.D.C.  
Tel: (504) 225-2690, 225-0994, 225-1993  
Fax: (504) 225-2227

#### **Ministry of Agriculture and Livestock**

Guillermo Alvarado, Minister  
Col. Loma Linda Norte

Blvd. Centro America  
Tegucigalpa, M.D.C.  
Tel: (504) 232-8394, 231-1921  
Fax: (504) 232-5375

**Ministry of Natural Resources and Environment**

Xiomara Gómez, Minister  
Atras del Birichiche, carretera al estadio  
Tegucigalpa, M.D.C.  
Tel: (504) 235-7833  
Fax: (504) 232-6250

**Ministry of Labor and Social Security**

Rosa América Miranda de Galo, Minister  
7 Calle, 2 y 3 Ave.  
Comayaguela, M.D.C.  
Tel: (504) 237-9778  
Fax: (504) 222-3220

**Ministry of Tourism**

Norman García, Minister  
Col. San Carlos, 2 Piso, Edif. Lloyd's Bank  
Tegucigalpa, M.D.C.  
Tel (504) 222-4002  
Fax (504) 238-2102

**Ministry of Health**

Plutarco Castellanos, Minister  
3 Calle, 4 Ave.  
Tegucigalpa, M.D.C.  
Tel. (504)222-5226  
Fax: (504)238-4141

**Technical Ministry of International Cooperation**

Moisés Starkman, Minister  
1 cuadra arriba de la Procuraduría, contiguo al Complejo  
Financiero Capital, P.O. Box 1327  
Tegucigalpa, M.D.C.  
Tel. (504) 239-5269  
Fax. (504) 239-5277

**Dirección General de Inversiones y Políticas Sectoriales**

Luis Andrés Franco, Director  
Edif. Larach, 5 Piso  
Tegucigalpa, M.D.C.  
Tel: (504) 238-2024  
Fax: (504) 237-3025

**Dirección General de Gestión Empresarial (One Stop Shop)**

Concepción Mejía Alas, Director  
Edif. Larach, 7 Piso  
Tegucigalpa, M.D.C.  
Tel. (504) 222-0318

Fax. (504) 238-4267

**Empresa Hondureña de Telecomunicaciones (HONDUTEL)**

Roberto Michelletti, General Manager  
Final Blvd. Morazan, detrás de Bigos, Edif. Los Almendros  
P.O. Box 1794  
Tegucigalpa, M.D.C.  
Tel. (504) 237-9802  
Fax. (504) 237-1111

**Servicio Autónomo Nacional de Acueductos y Alcantarillados (SANAA)**

Humberto de Jesús Puerto, General Manager  
1 Ave., 13 Calle, Comayaguela  
P.O. Box 437  
Tegucigalpa, M.D.C.  
Tel. (504) 237-9200  
Fax. (504) 237-8552

**Empresa Nacional de Energía Eléctrica (ENEE)**

José Manuel Arriaga, General Manager  
Calle Real, Edif. Banco Atlántida, 4 Piso  
Comayaguela, M.D.C.  
Tel: (504) 237-8466, 238-0809  
Fax: (504) 237-8473

**Honduran Council for Science and Technology**

Gerardo Zepeda, Minister  
P.O. Box 4458  
Tegucigalpa, M.D.C.  
Tel. (504) 239-5186  
Fax: (504) 232-5669  
E-mail: gzepeda@ns.hondunet.net

**Presidential Program for Investment**

Roger Marin Neda, Executive Director  
Edif. Banco del Pais, 6 Piso, Blvd. Suyapa  
Tegucigalpa, M.D.C.  
Tel. (504) 239-8613  
Fax: (504) 239-8466  
E-mail: fgptn@david.intertel.hn

**Municipality of Tegucigalpa**

Vilma de Castellanos, Mayor  
Frente al Parque Central  
Tegucigalpa, M.D.C.  
Tel. (504) 238-3319  
Fax: (504) 222-0242  
E-mail: ccastellanos@alcaldia\_teg.hn2.com

**Municipality of San Pedro Sula**

Roberto Larios Silva, Mayor  
P.O. Box 663

San Pedro Sula, Honduras  
Tel. (504)553-4646, 557-3404  
Fax: (504)557-2844  
E-mail: [Alcaldia@Netsys.hn](mailto:Alcaldia@Netsys.hn)

**Honduran Fund for Social Investment (FHIS)**

Waleska Pastor, Minister and Executive Director  
Edificio Ahprocafe, Col. Lara  
Tegucigalpa, M.D.C.  
Tel: (504)236-6447  
Fax: (504)236-8230

**B. Country Trade Associations /Chambers of Commerce**

**Honduran American Chamber of Commerce (AMCHAM)**

Jacqueline Foglia, President  
P.O. Box # 1838  
Tegucigalpa M.D.C.  
Tel: (504) 232-7043, 232-6035  
Fax: (504) 232-2031  
E-mail: [hamcham1@netsys.hn](mailto:hamcham1@netsys.hn)

**Foundation for Investment and Development of Exports (FIDE)**

Luis Cosenza, President  
P.O. Box # 2029  
Tegucigalpa M.D.C.  
Tel: (504) 232-9345, 232-9105, 232-9098, 232-9099  
Fax: (504) 239-0766  
E-mail: [fide@hondutel.hn](mailto:fide@hondutel.hn)  
[Http://www.hondurasinfo.hn](http://www.hondurasinfo.hn)

**Federation of Agricultural Producers and Exporters (FPX)**

Enrique Misselen, President  
P.O. Box # 1442  
San Pedro Sula, Cortés  
Tel: (504) 566-3794, 566-0795  
Fax: (504) 566-3852  
E-MAIL: [fpxhonduras@mayanet.hn](mailto:fpxhonduras@mayanet.hn)

**Honduran Council for Private Enterprise (COHEP)**

Eduardo Facusse, President  
P.O. Box 3240  
Tegucigalpa M.D.C.  
Tel: (504) 221-0011, 221-4268, 221-4272  
Fax: (504) 221-0022  
E-mail: [cohep@hondurasnet.com](mailto:cohep@hondurasnet.com)

**National Honduran Association of Exporters (ANEXHON)**

Oscar Galeano, President  
Blanca Aguilar, General Manager  
Local de la C.C.I.C.  
San Pedro Sula, Cortes

Tel: (504) 553-3626  
Fax: (504) 553-3626

**Construction Industry Association (CHICO)**

Angelo Botazzi, President  
P.O. Box # 905  
Tegucigalpa M.D.C.  
Tel: (504) 232-1756  
Fax: (504) 239-0973  
E-mail: [chico@david.intertel.hn](mailto:chico@david.intertel.hn)

**International Chamber of Commerce (INTERCHAM)**

Isa Antonio Jaar, President  
P.O. Box # 4548  
San Pedro Sula, Cortés  
Tel: (504) 557-5656  
Fax: (504) 557-4994  
E-mail: [intcham@simon.intertel.hn](mailto:intcham@simon.intertel.hn)

**Honduran American Chamber of Commerce (AMCHAM)**

P.O. Box # 1209  
San Pedro Sula, Cortés  
Tel: (504) 558-0164  
Fax: (504) 558-0165  
E-mail: [hamcham@netsys.hn](mailto:hamcham@netsys.hn)

**Honduran Federation of Chambers of Commerce (FEDECAMARA)**

Mauricio Kattan Salem, President  
P.O. Box # 3393  
Tegucigalpa M.D.C.  
Tel: (504) 232-6083  
Telefax: (504) 232-1870

**Chamber of Commerce and Industry of Tegucigalpa (C.C.I.T.)**

Antonio Tavel, President  
P.O. Box # 3444  
Tegucigalpa M.D.C.  
Tel: (504) 232-8110, 232-8210  
Fax: (504) 232-0159  
E-mail: [ccit@hondutel.hn](mailto:ccit@hondutel.hn)

**Chamber of Commerce and Industry of Cortes (C.C.I.C.)**

Mario Canahuati, President  
P.O. Box # 14  
San Pedro Sula, Cortés  
Tel: (504) 553-0761, 553-2490  
Fax: (504) 553-3777  
E-mail: [ccic@simon.intertel.hn](mailto:ccic@simon.intertel.hn)

**National Industry Association (ANDI)**

Felipe Peraza, President  
Tel: (504) 232-2221, 232-5731  
Fax: (504) 221-5199



P.O. Box # 3447  
Tegucigalpa M.D.C.  
E-mail: [andi@itsnetworks.net](mailto:andi@itsnetworks.net)

**Honduran Apparel Manufacturers Association**

Jesus Canahuati, President  
P.O. Box # 2658  
San Pedro Sula, Cortés  
Tel: (504) 552-4140  
Fax: (504) 552-4150  
E-mail: [ahm@netsys.hn](mailto:ahm@netsys.hn)  
[Http://www.netsys.hn/~ahm](http://www.netsys.hn/~ahm)

**Honduran Association of Banking Institutions (AHIBA)**

Jacobo Atala, President  
P.O. Box # 1344  
Tegucigalpa, M.D.C.  
Tel: (504) 235-6770  
Fax: (504) 239-0191  
E-mail: [ahiba@fihcohsa.hn](mailto:ahiba@fihcohsa.hn)

**Honduran Mining Association (ANAMINH)**

Roberto Dala, President  
P.O. Box # 3264  
San Pedro Sula, Cortés  
Tel: (504) 550-1701  
Fax: (504) 550-1141

**Honduran Association of Importers and Distributors of Land and Cattle Products (ADIVEPAH)**

Felipe Peraza, President  
P.O. Box # 3642  
Tegucigalpa, M.D.C.  
Tel: (504) 236-5115  
Fax: (504) 236-5069  
E-mail: [fertica@optinet.hn](mailto:fertica@optinet.hn)

**Honduran Association of Importers and Distributors of Vehicles (AHDIVA)**

José Job Martinez, President  
P.O. Box # 1160  
Comayaguela, M.D.C.  
Tel: (504) 225-4004  
Fax: (504) 225-4530  
E-mail: [ahdiva@optinet.hn](mailto:ahdiva@optinet.hn)

**Honduran Association of Importers and Distributors of Petroleum Products (AHDIPPE)**

Donato Estrada, President  
P.O. Box # 1392  
Comayaguela, M.D.C.  
Tel: (504) 237-2814

Fax: (504) 237-2814

**Asociación Hondureña de Compañías y Representantes Navieros  
(AHCORENA)**

Holger Peters, President  
Edif. Plaza Local 19A  
1-2 Calle, 1-2 Ave, N.E.  
San Pedro Sula, Cortés  
Tel: (504) 552-4412  
Fax: (504) 552-4412  
E-mail: [matra@sigmanet.hn](mailto:matra@sigmanet.hn)

**National Aquaculture Association (ANDAH)**

Hector Corrales, President  
P.O. Box # 229  
Choluteca, Choluteca  
Tel: (504) 882-0986  
Fax: (504) 882-3848  
E-mail: [andah@hondutel.hn](mailto:andah@hondutel.hn)

**Honduran Chamber of Insurance Companies (CAHDA)**

Mario Roberto Solís, President  
P.O. Box # 3290  
Tegucigalpa, M.D.C.  
Tel: (504) 239-0342  
Fax: (504) 232-6020  
E-mail: [cahda@ns.gbm.hn](mailto:cahda@ns.gbm.hn)

**Honduran Chamber of Tourism (CAMTURH)**

Ronald Barahona, President  
P.O. Box # 5804  
Tegucigalpa, M.D.C.  
Tel: (504) 236-8836  
Fax: (504) 221-3662  
E-mail: [camturh@datum.hn](mailto:camturh@datum.hn)

**National Federation of Agricultural Producers (FENAGH)**

Roberto Reyes, Presidente  
P.O. Box # 3209  
Tegucigalpa, M.D.C.  
Tel: (504) 239-1303  
Fax: (504) 231-1392

**Honduran Entrepreneurship Association (GEMAH)**

José Angel Mejía, President  
P.O. Box # 1170  
San Pedro Sula, Cortés  
Tel: (504) 557-4433  
Fax: (504) 557-4432  
E-mail: [lacos01@letera.net](mailto:lacos01@letera.net)

**National Hotel Association (AHAH)**

Adrian Camacho, President  
P.O. Box # 3574  
Tegucigalpa, M.D.C.  
Tel: (504) 237-0121  
Fax: (504) 237-2221  
E-mail: [ahah@mayanet.hn](mailto:ahah@mayanet.hn)

#### **C. Country Market Research Firms**

##### **R. Rodríguez y Asociados**

Reynaldo Rodríguez, Manager  
P.O. Box # 3700  
Tegucigalpa M.D.C.  
Tel: (504) 231-1911  
Fax: (504) 231-1906  
E-mail: [pwc.honduras@hondudata.com](mailto:pwc.honduras@hondudata.com)  
E-mail: [reynaldo.rodriquez@hn.pwgglobal.com](mailto:reynaldo.rodriquez@hn.pwgglobal.com)

##### **KMPG Peat, Marwick y Asociados**

Armando Barnica, General Manager  
P.O. Box # 3398  
Tegucigalpa M.D.C.  
Tel: (504) 232-5907  
Fax: (504) 232-5925  
E-mail: [kpmgtqu@hondudata.com](mailto:kpmgtqu@hondudata.com)

##### **Ernst & Young**

Morales Palao Williams y Asociados  
William Chong Wong, Manager  
P.O. Box # 3878  
Tegucigalpa M.D.C.  
Tel: (504) 231-1249  
Fax: (504) 232-3709  
E-mail: [dtca@david.intertel.hn](mailto:dtca@david.intertel.hn)

##### **Mercaplan**

Sergio Menjivar, General Manager  
P.O. Box # 409  
San Pedro Sula, Cortés  
Tel: (504) 550-1992  
Fax: (504) 550-1996  
WWW: [Http://www.mercaplan.hn](http://www.mercaplan.hn)  
E-mail: [jorge@mercaplan.hn](mailto:jorge@mercaplan.hn)

##### **C.I.D.**

##### **Consultoría Interdisciplinaria en Desarrollo, S.A. (Gallup de Centroamérica)**

Diana Germer, General Manager  
P.O. Box # 3390  
Tegucigalpa M.D.C.  
Tel: (504) 232-0637, 239-0993  
Fax: (504) 239-0990  
E-mail: [cgallup@hondutel.hn](mailto:cgallup@hondutel.hn)

## **D. U.S. EMBASSY TRADE PERSONNEL**

### **Economic Section**

David C. Wolfe  
Economic/Commercial Counselor  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 236-6836

Daniel Peters  
Economic/Commercial Officer  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 236-6836

Michele Connell (11/99)  
Economic/Commercial Officer  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 236-6836

Maria Callejas de Durón  
Economic/Commercial Specialist  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 238-2888

Carlos Diaz  
Legal Advisor  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 236-6836

### **Foreign Agricultural Service**

Omar González  
Agricultural Specialist  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320

Fax: (504) 236-8342

Tania Koritza David  
Secretary  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 236-8342

**U.S. & Foreign Commercial Service**

Rossana Lobo  
Senior Commercial Specialist  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 238-2888

Irene Lucía Caso  
Commercial Assistant  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 238-2888

Carlo Alvarez  
Commercial Assistant  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 238-2888

Francis Liliana Martinez  
Commercial Secretary  
U.S. Embassy  
Avenida La Paz  
Tegucigalpa, M.D.C.  
Tel: (504) 236-9320  
Fax: (504) 238-2888

Visit our webpage at  
<http://www.usia.gov/abtusia/posts/H01/wwwhce.html>

**E. Washington - Based U.S. Government, Country Contacts**

**U.S. Department of State**

Desk Officer for Honduras - John Haynes  
Room 4915  
2201 C Street, N.W.

Washington, DC 20520  
Tel: (202) 647-0087  
Fax: (202) 647-2597

**U.S. Department of Commerce**

Office of Latin America  
Caribbean Basin Division  
Elizabeth Jaffee  
International Trade Specialist  
14th St. and Constitution Ave., N.W.  
Washington, D.C. 20230  
Tel: (202) 482-0057  
Fax: (202) 482-0464

**Office of the U.S. Trade Representative**

Sandra Dembski, Director for Central America and the Caribbean  
600 17th Street, NW  
Washington, DC 20508  
Tel: (202) 395-5190  
Fax: (202) 395-9675

**Overseas Private Investment Corporation (OPIC)**

Raimundo Ruga, Insurance Officer  
1100 New York Avenue, NW  
Washington, DC 20527  
Tel: (202) 336-8572  
Fax: (202) 408-5142

**U.S. Trade and Development Agency**

Al Angulo, Regional Director for Latin America  
Room 309, S.A.-1621 N, Kent St.  
Arlington, VA 22209  
Tel: (703) 875-4357  
Fax: (703) 875-4009

**U.S. Trade and Development Agency**

Jeremy Martin  
Desk Officer for Honduras  
Room 309, S.A.-1621 N, Kent St.  
Arlington, VA 22209  
Tel: (703) 875-4357  
Fax: (703) 875-4009

**Export-Import Bank of the United States**

Mauricio Milian (for credit terms of less than one year)  
Donald Hultman (for 1-5 year loans and guarantees)  
811 Vermont Avenue, NW  
Washington, DC 20571  
Tel: (202) 565-3946  
Fax: (202) 566-3380

**U.S. Agency for International Development**

Bernadette Bundy

Desk Officer for Honduras  
1300 Pennsylvania Ave., NW  
Washington, DC 20523-5800  
Tel: (202) 712-5366  
Fax: (202) 216-3402

**U.S. Department of Agriculture**

Foreign Agricultural Service  
Carol A. Goodloe  
Americas Team Leader  
International Trade Policy  
Washington, DC 20250  
Tel: (202) 720-1325  
Fax: (202) 205-3875

**Office of Multilateral Development Banks**

U.S. & Foreign Commercial Service  
U.S. Department of Commerce  
Room H-1806  
Washington, DC 20230  
Tel: (202) 482-3399  
Fax: (202) 273-0927

**U.S. Department of Commerce Liaison to the U.S. Executive  
Directors Office** International Bank for Reconstruction and  
Development

1818 H Street, NW  
Room MC-1-525  
Washington, DC 20433  
Tel: (202) 458-0118  
Fax: (202) 477-2967

**F. U.S. - Based Multipliers Relevant for Country**

**Embassy of Honduras**

3007 Tilden Street, NW  
Washington, DC 20008  
Tel: (202) 966-7702  
Fax: (202) 966-9751

**Honduras Consulate General**

80 Wall Street, Suite 415  
New York, NY 10005  
Tel: (212) 269-3611  
Fax: (212) 509-8391

**Foundation for Investment and Development of Exports (FIDE)**

Miami Office  
2100 Ponce de Leon Blvd.  
Suite 1175  
Coral Gables, FL 33134  
Tel: (305) 444-3060  
Fax: (305) 444-1610

**Honduras Institute of Tourism**

2100 Ponce de Leon Blvd., Suite 1175  
Coral Gables, FL 33134  
P.O.Box 140458  
Coral Gables, FL 33114-0458  
Toll Free:1-800-410-9608  
Tel (305) 461-9608  
Fax (305) 461-0602  
Email: [ihiturism@hondutel.hn](mailto:ihiturism@hondutel.hn)  
Website: [www.hondurasinfo.hn](http://www.hondurasinfo.hn)

**FPX International**

Promoters of Agricultural Exports  
2100 Ponce de Leon Blvd. Suite 1175  
Coral Gables Florida 33134  
Tel: (305) 471-6129  
Fax: (305) 471-6140

**OAS Permanent Mission**

5100 Wisconsin Ave.  
NW Suite 403  
Washington, DC 20016  
Tel. (202) 362-9656  
Fax. (202) 537-7170

**XII. MARKET RESEARCH AND TRADE EVENTS****Appendix F. Market Research**

A complete list of Department of Commerce Industry Sector Analyses (ISAs) for 1997 is available on the National Trade Data Base (NTDB).

**Available ISAs**

- Computer Software, May 1999
- Air Conditioning and Refrigeration Equipment, May 1999
- Safety and Security Equipment, August 1998
- Medical Equipment & Supplies, February 1998
- Travel & Tourism Services, May 1998
- Computer Software & Multimedia, June 1998
- Construction Equipment, April 1997
- Waste Water Treatment Equipment, December 1997



- Fruit and Vegetable Processing Equipment, April 1997
- Automotive Parts and Accessories, May 1996
- Computers and Peripherals, Oct. 1996
- Household Consumer Goods, Nov. 1996
- Franchising, December 1996
- Used & Reconditioned Equipment, August 1999
- Telecommunications Equipment, September 1999
- Agricultural Equipment, September 1999
- A complete list of market research reports is available in the National Trade Data Bank (NTDB).

**Upcoming ISAs in FY00:**

- Cosmetics & Toiletries, November 1998
- Forestry and Woodworking Machinery, December 1999
- Paper & Paperboard Products, March 2000
- Mining Industry Equipment, April 2000
- Electrical Power Systems, June 2000
- Textile Machinery, July 2000
- Aquaculture Equipment, August 2000

List of U.S. Department of Agriculture/Foreign Agricultural Service Commodity Reports and Market Briefs

- Hurricane Mitch Update, November 1998
- Coffee Semi-Annual Report, November 1998
- Trade Policy Monitoring Report, March 1999
- Sugar Annual Report, April 1999
- Coffee Annual Report, May 1999
- Food & Agricultural Import Regulations and Standards (FAIRS) Report, August 1999

- Livestock Annual Report, August 1999
- Poultry Annual Report, August 1999
- Exporter Guide, September 1999
- Retail Food Sector, October 1999
- Hotel, Restaurant and Institutional (HRI) Food Service Report, September 2000

A complete listing of FAS reports and market briefs is available on the FAS home page: <http://www.fas.usda.gov> Reports can also be viewed on-line and downloaded from the FAS homepage.

## **APPENDIX G. Trade Event Schedule**

### **1. International Buyer Program**

During FY00 the Foreign Commercial Service in Tegucigalpa will promote local participation for the following U.S. International Buyer Events:

- Weftec, New Orleans, La, October 9-13, 1999
- Pack Expo 98, Las Vegas, NV, October 18-20, 1999
- Worldwide Food Expo, Chicago, IL, November 28-31, 1999
- Magic International, Las Vegas, N.V., February 14-17, 2000
- Beauty & Barber Show, Las Vegas, NV, August 3-6, 2000
- National Restaurant Association Show, Chicago, IL, May 20-23, 2000
- Sunbelt Agricultural Expo, Moultrie, GA, October 19-21, 1999
- Automotive Aftermarket Industry Week, Las Vegas, NV, November 2-5, 1999
- Comdex Fall, Las Vegas, NV, November 15-19, 1999
- The International Builder's Show, Dallas, TX, January 14-17, 2000
- Wireless 2000, New Orleans, La, February 28-March 1, 2000
- International Franchise Expo, Washington, DC, March, 2000
- International Hardware Week & National Hardware Show Chicago, IL, August 13-16, 2000

## **2. Trade Mission**

Note: Firms should consult the export promotion calendar on the NTDB, or contact the post Commercial Section for the latest information or to arrange individual trade programs.

## **3. Fairs**

- EXPO USA 2000, San Pedro Sula, Honduras  
Expo USA is the largest annual trade event for U.S. products and services in Honduras, supported by the American Embassy in conjunction with the American Chamber of Commerce.